# AGRICULTURAL CREDIT

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BEING A STUDY OF RECENT DEVELOPMENTS IN AGRICULTURAL CREDIT ADMINISTRATION IN THE UNITED STATES OF AMERICA

BY


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WITH AN INTRODUCTION

BY


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TO MY THREE TEACHERS

WHOSE NOBLE GUIDANCE HAS INSPIRED ME AT EVERY STAGE OF MY LIFE AND HAS AROUSED IN ME AN INTEREST TO SERVE THE SILENT AND SUFFERING PEASANTS OF MY COUNTRY

(1) AGHA SHER AHMAD KHAN
B.A., B.T., LL.B.
*Formerly Headmaster, Islamia High School, Dasuya*

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*Vice-Principal, Formian Christian College, Lahore*

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C.I.E., M.A. (Oxon)
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# INTRODUCTION

BY

JOSEPH JOHNSTON, M.A.

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AUTHOR OF "NEMESIS OF ECONOMIC NATIONALISM"

It has been a great privilege to supervise the preparation of Dr. Qureshi's thesis, in which he has studied recent developments in agricultural credit administration in the United States. After a brilliant career in the Punjab University Dr. Qureshi, in the course of a series of prolonged visits to the British Dominions, the United States, Great Britain and Ireland, devoted himself to a study of the problem of agricultural indebtedness in these several countries. He acquired the degree of M.Sc. (London) in 1934 with distinction. He thus brings to his task of description, analysis and criticism not only the capacity of the trained economist, but the stimulating influence of personal contact with those who are charged with the responsibility of "doing something" to ease the difficult position of farmers in their several communities. Such men can never afford to ignore the human and political setting into which their economic policies must be fitted. In the sphere of applied economics knowledge of abstract economic theories is, at best, only the beginning of wisdom, and at worst may become a futile and dangerous plaything of the mind. Dr. Qureshi's contact with the economic "practitioner" class in the United States and elsewhere gives his book a peculiar value.

At first sight it might appear that this book is of interest to only a limited number of specialists, that is, to the class of practising agricultural economists and administrators referred to above. As a class the latter may be said to have learnt all they can from the pundits of economic theory, and it has not helped them very much in their daily tasks. Perhaps these have something to teach as well as to learn,

and since, as a rule, they are too busy to write books, the next best thing is that books like this of Dr. Qureshi should be written and widely read.

The reader, who is looking for light from the West on the problems of European agriculture, will need to be on his guard against too ready an application of American ideas and institutions to the conditions of his own country. The institutional problem of agricultural credit in the U.S.A. is largely governed by the fact that the ordinary commercial banks, though numerous, do not reach down and give adequate banking service to outlying rural communities in that vast country. So far as short-term credit is concerned the National State found it necessary to supply the deficiencies, as well as remedy the faults, of ordinary commercial banking enterprise. In a country like Great Britain and Ireland, where a few powerful banks are widely represented by branches in rural as well as urban areas, the institutional setting of the problem is entirely different.

On the other hand, where long-term credit is concerned, it is possible that American enterprise and achievements may be more fruitfully studied. Nearly 75 per cent. of the indebtedness of American farmers is long-term indebtedness. In any progressive country, as agricultural production becomes more mechanized, more intensive, and more continuous, the need for the command of capital for long-term periods must become proportionately greater. The legal ownership of farms by individual farmers imposes a heavy handicap on those who seek to enter on an agricultural career. The old landlord-tenant system of Ireland was open to many objections, but at all events it provided a ladder by which the landless man might ascend to large-scale agricultural enterprise, with the minimum of capital commitment at each stage of his ascent. One unsatisfactory consequence of the land legislation, by which the Irish tenant farmer is in process of becoming an occupying owner, is that it tends to fix a great gulf between landless men and landowners. On the other hand, the gulf existed in some degree before, because Irish landlords, as a class, did not provide the fixed assets of agriculture, and equity required

that the "Ulster tenant right custom" should be recognized by law, and the outgoing tenant be allowed freely to sell his interest in his holding. The English landlord-tenant system went a long way towards the solution of the long-term credit problem in English agriculture, but its efficiency in this respect has been undermined in consequence of the high level of post-War taxation on agricultural real estate values. Such a system cannot be extemporized in countries where it does not exist. The more recent experience of the federal land banks in the United States would suggest that in one way or another the State must cushion the shocks occasioned by the recent collapse of agricultural real estate values, and that, in America and elsewhere, the State may find itself creating institutions the object of which is to fulfil some of the functions of the English landlord class.

Certain general questions suggest themselves to a thoughtful reader who is interested in the phenomena of the business cycle. Does the notoriously weak credit and capital position of the farming industry in most countries favour weak selling, more so in certain phases of the cycle than in others? Does this tend to produce disordered relations between agricultural and non-agricultural prices, and is this a major cause of business depression? If the answer to all these questions is in the affirmative, then the well-known tendency of credit and capital to flow more readily into commerce and industry than into agriculture is a permanent cause of instability in the business economy, and students of agricultural credit problems are in fact seeking a remedy for a disorder which economists in general cannot afford to ignore.

The hire-purchase credit afforded by producers of agricultural machines, who were concerned only to sell the largest possible number, was an important factor in the expansion of certain types of agricultural production in the post-War years in many overseas countries. Whatever view may be taken of the part played by "unbalanced" agricultural production in the great depression, it cannot be denied that such hire-purchase credit is an anarchical element in the credit structure as a whole, which may

defeat an otherwise well-conceived national credit policy, and that agriculture may suffer from excess as well as deficiency of credit.

It also seems clear that credit policy for agriculture cannot safely be divorced from national commercial policy, or the latter from national financial policies which affect international relations. The fundamental defect of American agricultural credit policy in the post-War years was that it was an effort to finance the continued production of a volume of agricultural goods which, owing to various causes, could not possibly achieve complete consumption in markets at home and abroad. If America had pursued a commercial policy less exclusive of European industrial products in the years following 1928, it is possible that we should have heard less of the "uneconomic surpluses" of American wheat and cotton in the years following 1930.

This raises an interesting question of pure economic theory. What is the *ultimate real*, as distinct from the *temporary financial*, basis of credit, anyhow, for agricultural or any other kind of economic production? One might summarize part of the answer by saying that the ultimate real basis of credit is the belief that what one proposes to produce will ultimately be bought and paid for out of money income by consumers at a price which covers all the intermediate costs that have meanwhile been hopefully incurred. Thus production credit in the long run depends on economic consumption at home or abroad, and can have no other foundation. If that be so, to cut the arteries of international commerce is to destroy the basis of credit for export industries. Thus the real foundation of agricultural credit in the U.S.A., or any other agricultural surplus exporting country, is provided by domestic consumers of foreign imported goods. Thus, too, the destroyers of agricultural credit in America and elsewhere are the industrial interests which exclude foreign imported goods.

These are the major impressions derived by the present writer from excursions with Dr. Qureshi into the jungle of American agricultural credit problems and institutions. The jungle is now becoming a well-kept public park under

the fostering management of President Roosevelt's recently established Farm Credit Administration. Dr. Qureshi has hacked clear paths through the historical background of this Administration. Thanks to him it is now more accessible than before, but in the nature of the case it must always remain something of a jungle. There are complexities of human affairs whose essential obscurity can be illuminated only by the light that makes darkness visible.

Now that the institutional machinery of agricultural credit has attained a well-balanced completeness in the U.S.A. there still remain certain fundamental problems which are problems not only for the men who operate the machine. Again I ask, what is the ultimate real basis of agricultural credit anyhow? The pioneers of agricultural credit in America and elsewhere can hardly be blamed for giving a wrong answer to this question, and for building their agricultural credit policies on the shifting sands of incompatible national commercial policies. It is a question primarily for the financial expert or the economic theorist. Unfortunately, the men of theory are by no means agreed about the answer to it, and in the meanwhile the men of action must be excused if they ignore the warfare of the schools, and approach their tasks in the light of common sense. Perhaps the theoretical question will eventually achieve solution by the method of *solvitur ambulando.* The foregoing hint about the possible reactions of national commercial and financial policies on the basis of agricultural credit is all that an academic economist may dare to suggest to the men of action in this field of economic statesmanship.

JOSEPH JOHNSTON.

# PREFACE

THE matter contained in the following pages is the result of information and impressions gained during my visit to the United States in the summer of 1935, in connexion with my world tour to study the systems of rural credit and marketing organizations. I was specially attracted by the novelty and magnitude of the "New Deal" experiments, and I particularly wanted to study the structure and working of the Farm Credit Administration, which is the biggest experiment in agrarian banking in the world and, perhaps, the least criticized and one of the most constructive achievements of the "New Deal." One of my qualifications to put this work before the public is the claim to present an impartial and unbiased view of the situation which I was able to gain as a detached observer, without any party or political prejudices. Two main reasons prompted me to publish this work. In the first place, I want to present the American situation as it is, to British statesmen and students, in the hope that we shall learn from American experience—avoiding their mistakes and benefiting from their good points—and evolve a sound system of agricultural credit in the countries of the British Empire. This is the main reason why so much stress has been laid on the administrative side of the problem. There is a clamouring need for a sound system of agricultural credit in a country like India where over 70 per cent. of the population depends for their livelihood on tilling the soil. Secondly, I have been encouraged and advised by many Professors of American Universities (with whom I discussed the subject, explained my views and the general plan of my survey) to publish it, as it would serve as a useful textbook on agricultural credit—a subject which is attracting increasing attention in the Universities owing to the terribly depressed state of the agricultural industry all over the World and its disastrous consequences on the world economy as a whole. From the American point of view the book would be found

lacking in elaborate tables, detailed figures, graphs; but for the general reader and especially for students, I consider that it would be more profitable to explain fully the political background than to burden the book with elaborate tables and figures which are generally omitted.

I am under great obligation to all those authors whose books I have frequently quoted as authorities; and to the officers of the various units of the Farm Credit Administration, federal reserve banks, and other bankers who very kindly and willingly supplied me with valuable information and explained to me the internal policies and working of their respective institutions. It is not possible for me to thank all those persons who helped me in one way or another in the course of preparing this work; but I would specially like to thank Dr. W. I. Myers, Governor of the Farm Credit Administration, Washington, who very kindly explained to me the working of the system and provided me with a very useful amount of literature bearing on the subject. I am highly indebted to Dr. Conard H. Hammer, Assistant Professor of Agricultural Economics, Missouri University, Columbia, for reading the first four chapters of the book in the form of a preliminary draft of my MS., and for his useful criticism and suggestions to improve the MS., to Dr. Fred L. Garlock, Senior Agricultural Economist, Bureau of Agricultural Economics, Washington, for kindly reading the sections on short-term credit and for his valuable suggestions and correction of facts; to Professor O. S. Morgan, of Columbia University, New York, for kindly reading the first five chapters and his valuable suggestions. For revising the MS. I am under deep obligation to Dr. Anstey, of the London School of Economics, who very kindly undertook to read the whole MS., and her criticism, corrections, and suggestions have been most useful to me in re-writing the MS. Last, but not least, I am specially indebted to Mr. Joseph Johnston, Fellow and Tutor of Trinity College, Dublin, not only for writing an introduction to this book, but also for the valuable assistance which I received from him while working on this MS. As a matter of fact it is largely through his inspiration, encouragement,

guidance, criticism and suggestions that the MS. has taken the present form, which is considerably in advance of the original MS. Without his ungrudging help it would not have been possible to achieve this result. While I highly appreciate the contributions which all the above-mentioned authorities have made in re-writing the MS. in its present form, the mention of any of them should by no means be considered as an endorsement by any of them of my views, for which I am alone responsible. I must also thank the Senate of the University of London whose generous grant from the Publication Fund has enabled me to publish this work.

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# AGRICULTURAL CREDIT

## PART I
## HISTORICAL

## CHAPTER I

### SITUATION PRIOR TO 1916

DURING recent years the question of agricultural credit has attracted increasing attention all over the world. The rapid commercialization of agriculture, with revolutionary changes in the means of communication and transport, necessitates a much larger amount of capital to carry on farming operations than before. In many cases this means that the farmer requires a larger amount of credit than before. How is he to get more credit? The question is not so simple to answer. In order to answer it we have to study the nature of the agricultural industry, its special characteristics and peculiarities, and the difficulties encountered in financing it.

**The Special Conditions of Agricultural Production**

Owing to its inherently different nature, agriculture requires different kinds of credit from industry. Production can be fairly controlled in industry and planned beforehand; but in agriculture one whim of Nature may beat all human ingenuity. A very interesting case of this occurred recently in the United States. In the last quarter of the year 1933, that country had a huge surplus of wheat and other products. In many places wheat was dumped into the sea. Great efforts were made by the U.S. Department of Agriculture to curtail the acreage sown. But the drought of 1934 changed the whole situation. The United States was actually threatened with a shortage of various crops which a few months before were glutting the market.

The time taken for agricultural production is usually

longer than that required to produce most manufactured products. The turnover of capital in agriculture is much slower. The merchant and the trader are repeatedly renewing their circulating capital within a year, while the agriculturalist hardly gets any return in less than a year's period. The agriculturalist therefore requires circulating credit for a longer period than the industrialist. He requires credit for longer periods than ordinary money-lending institutions find it convenient to provide. There is great reluctance on the part of capital and credit to flow from the city to the country. The reasons are not far to seek. Merchants and manufacturers carry on their business within easy reach of the important lending institutions and banks. Such institutions are more familiar with the work and securities provided by merchants and manufacturers than with those of the farmers.

**Early History of Agricultural Credit**

The early history of agricultural credit in the United States is very interesting and instructive to the student of "Finance." Politics played a more important part in launching new schemes of credit than sound and prudent principles of finance. The movement was very intimately linked up with the campaign for cheaper money. The Colonies had abundance of land, but the colonists were desperately in need of capital. There was not only a shortage of capital, but also a shortage of metallic currency. The farmers were interested in "easy money" and rising prices. "The whole monetary history in America testifies to the influence of these circumstances."[1] The expounders of the theory of inflation were very popular in the colonial days of America. In the seventeenth and eighteenth centuries many so-called "Land Banks" were started without any capital or deposits to provide mortgage credit, and issued bonds.

**The Foreign Capitalist and the Merchant**

The most important sources of credit in the early days were the foreign capitalists and merchants. When efforts

[1] Eliot, Clara. *The Farmers' Campaign for Credit,* page 3.

were made in the first half of the seventeenth century to colonize America, the capitalist found it a good investment to lend money to the prospective settlers. Then raw products were needed in the European countries, and America, being a new country, was badly in need of capital to exploit its products. So from the very start merchants and traders arrived from Europe to obtain raw products in exchange for their capital which they brought with them from their respective countries.

The planters had no other source from which to borrow money, and were compelled to stick to certain merchants and traders who charged very heavy rates of interest. The high rates were justified owing to great risks in lending. The planter was glad to get money even at a high rate of interest because he was assured of a ready market for his produce, and he could devote his whole time and energy to his farming business without worrying about the financial and marketing side of it.

**Wild-cat Banking**

Lending money became the easiest and most profitable profession in the eighteenth century. Scores of small banks with no idea of banking principles were started for profit. They had none of the banking tradition of the old countries, and were merely speculative bodies issuing notes to provide "more money." "There was a general failure to recognize the distinction between money and purchasing power."[1] The poor farmer did not understand the difference between savings and inflation. What he wanted was cheap money, and he had no desire to know where this money came from. This made the job of the inflationists and speculators much easier. Money was rapidly manufactured to finance agriculture by a large number of small private banks. In the beginning of the nineteenth century, in Mississippi the whole cotton-growing business was financed by such banks. In the West and North-west banks were involved in railroad finance. The panic of 1837 was largely due to such unsound banking practices. The notes of most of these banks were

[1] Sparks, E. S., *Agricultural Credit in the U.S.A.*, page 4.

inconvertible, representing nothing but the paper on which they were printed.

## POLITICAL INFLUENCES

### The Granger Movement

After the Civil War was over, the question of "redemption of the greenbacks into specie" came to the forefront. The greenbacks were depreciated to the extent of 50 cents to the dollar, and their redemption into specie would have meant a great deflation and fall in prices. The railroad rates were excessive, and farmers were handicapped by them. As a protest against the proposed deflation, and to carry on a campaign against high railroad rates, the Granger Movement was inaugurated.[1]

### The National Greenback Party

In 1874, the National Greenback party was organized with a view to advocating a national paper currency, redeemable in interest-bearing bonds. This movement was at its strongest in the new agricultural states of the South and the West. But in spite of this propaganda of the National Greenback Party, specie payment was resumed in 1879.

### Free Silver Movement

With the passing of the Congress Act of 1873, demonetizing silver, only gold was left to enjoy the privileges of unlimited coinage. The effects of this Act on the farmers were overstated by the propaganda of the silver-producing interests. The followers of the Greenback Party, who had failed to achieve their objects in the previous campaign, joined for political considerations with the silver interests to attempt to remonetize silver. This movement was popularly called the "Free Silver Movement." It met with partial success when the Bland-Allison Act in 1878, and the Sherman Act in 1890 were passed to provide for the coinage of limited quantities of silver.

[1] For details, see Kile, O. M.: *The Farm Bureau Movement*, Chapters I and II.

**The Farmers' Alliance**

The Farmers' Alliance was formed to agitate for the increase of currency by the free coinage of silver and the substitution of Greenbacks or Government notes for bank-notes. The movement reached its height in 1888-89. It also advocated Government ownership of railroads, reduction of taxes, and the abolition of future trading in agricultural products. One of its constructive proposals was to establish warehouses built and owned by the Government. But it asked the State Governments to advance up to 80 per cent. of the value of the stored commodity at the rate of 1 per cent. per annum only. According to this scheme the Government was to discontinue the keeping of deposits with the banks, and to establish sub-treasury offices in connexion with the warehouses, and to abolish the national banks. The organization of the farmers in the North-west Alliance advocated the establishment of a Government loan bureau to lend legal tender currency to the farmers on the mortgage security of their lands up to 50 per cent. of its value at 2 per cent. for periods of twenty-five years.

**The Populist Party**

With a continuing fall in the prices of agricultural products the situation became serious. The financial condition of the farmers went from bad to worse. "The price of wheat fell from an average of 73 cents a bushel in the years 1883–1889 to 49 cents a bushel in 1892, while corn fell from 36 cents to 21 cents in 1896."[1] This gave rise to the Populist or People's Party in the Western States in the early nineties. Their principal demands were—

1. Increase in the currency by issuing Government notes.
2. Free and unlimited coinage of silver and gold at a fixed ratio of 1 to 16.
3. Reduced expenditure of Government.
4. Reforms of taxation.

With the increase in prices and improved conditions the movement slowly died out.

[1] Buck quoted by Eliot. *Op. cit.*, page 21.

This tremendous fall in prices made the burden of debt intolerable. In order to pay their fixed charges the farmers tried to meet their obligations by producing more, which further glutted the market, depressed prices and accentuated the depression. The same phenomenon has been a feature of the present world-wide depression.

**The Bimetallic Controversy**

As bimetallism offered the prospect of getting cheaper money, the farmers again united with the silver interests to advocate the adoption of "bimetallism," in the election of 1896, and to vote for the Democrats. But the Republicans won the election with a narrow majority of 60,000 votes. The sparsely populated agricultural states voted for, and the eastern states (with the greatest density of population) all voted against bimetallism. The matter was finally settled in 1900 when the Gold Standard Act, declaring gold to be the final standard for all monetary payments, was passed.

**Situation Prior to 1916**

The passing of the Federal Farm Loan Act in 1916 is a landmark in the history of agricultural credit in the United States. Before we study the history and working of the farm loan system, we shall briefly describe the situation in regard to agricultural credit before that date.

**Credit Needs of Agriculture**

The agriculturalist needs both production and mortgage credit. Production credit, or what is generally called short-term and intermediate credit, is required to carry on production and to market the crops, while long-term or mortgage credit is required for permanent improvements in land which yield results after a comparatively long period of time.

**Short-term Credit**

Short-term or working capital in agriculture is derived from various sources—commercial banks, cattle loan companies, machinery dealers, local merchants, etc.

**Commercial Bank Loans for Agriculture**

Commercial banks have played a very important part in providing short-term credit to agriculture. But there is a general complaint that the treatment of the farmers by the commercial banks has been step-motherly. They have favoured the manufacturers at the expense of the farmers. This allegation has been very emphatically denied by the banking associations. However, there are certain facts which cannot be ignored by the commercial banks when lending money to the farmers. In the first place the relations between the bank and the borrowing farmer are more personal than impersonal. In the second place there are more risks in lending money to the farmer than to the manufacturer, owing to the inherently different nature of the farming industry; and thirdly the security provided by the farmer is very difficult for an ordinary commercial bank to value properly, and generally it is presented in a very unsatisfactory form. The result has been that agriculture has received a much smaller share of credit than what it requires. Moreover, owing to his slow turnover, the farmer requires loans for longer periods. The thirty to sixty days' loans usually advanced to manufacturers and traders are not sufficient for the farmers. Either the loan must be given for a longer period, or it must be renewed.

Constant renewals are a cause of irritation to both parties, and involve great trouble and risk. In good times such loans are automatically renewed, and the system works quite satisfactorily. But when times are hard, and prices are falling, and the farmer is most in need of further credit, he finds that he is pressed for the payment of his previous obligations.

The commercial banks have an obligation to their depositors, and must keep their assets liquid. Agricultural loans are far from being liquid. But in spite of all these difficulties, commercial banks, with few exceptions, have done more for the agricultural development of the United States than any other single agency.

**The National Banking System—Short-term Credit to Agriculture**

The first National Bank Act was passed in 1863, and was amended in 1864 and 1865. The primary purpose in establishing the national banking system was to provide the country with a sound and uniform currency to be issued in the form of national bank notes, to ensure adequate reserves for bank deposits, and to supply a market for Government bonds. The system was severely criticized by the agricultural interests, as it made no definite provision for agriculture. National banks were prohibited from lending money on real estate. The Government had learned a bitter lesson in the previous decades of wild-cat banking, and consequently prohibited the national banks from lending money on mortgage securities. (This was altered in 1913 by the Federal Reserve Act.)[1]

The fundamental purpose of the national banking system was to provide sound currency and short-term credit. In order to discourage the multiplication of small banks the minimum capital requirement to establish a national bank in places having a population of less than 6000 was fixed at $50,000. For places having a population of 6000 to 50,000, the minimum was raised to $100,000, and for larger towns the minimum capital required was $200,000. As a result of these rigid requirements the smaller country towns could not open a national bank, and consequently the short-term credit needs of the farmer were not catered for. As a result of agitation and discontent on the part of the agricultural interest the Act was amended in 1900, and the minimum requirements were lowered to $25,000 in towns where the population did not exceed 3000. As a consequence the number of small banks increased tremendously. In 1911 one-fourth of the national banks were capitalized at $25,000, and from 1900 to 1920, more than one-half of the national banks had a capital of $25,000.[2]

"Less than 3 per cent. of the banks were in our twelve largest cities, though these banks had at least a third of the banking capital, of the individual deposits, and of the loans

[1] See page 16.
[2] Sparks. *Op. cit.*, page 308.

of the country."[1] "But then the very fact that our small banks were so numerous gave rise to another set of difficulties, for the smaller banks have not the resources to stand a severe or prolonged depression."[2]

**Bank-note Currency**

The national banks almost immediately got the monopoly of note issue, as the private and state bank-notes were very heavily taxed. A separate department was established under the supervision of the comptroller of currency, who was in charge of the national bank currency based on Government bonds.

The maximum circulation of the currency fixed by the statute was a cause of complaint by the farmers as it was inadequate to meet their needs. In the beginning the maximum limit of note issue was fixed at $300,000,000, one-half of which was to be apportioned according to the population of each state, and the remaining one-half was to be distributed in proportion to the existing banking resources and business of each state. Every national bank had to deposit 30 per cent. of its "paid-in-capital-stock" with the United States Treasury in the form of United States bonds, before it was allowed to do any business. In return the banks received bank-notes to an amount equal to 90 per cent. of the par value of those bonds. The shareholders had double the liability of the amount that they had subscribed. In 1865, this maximum amount of note issue was raised from $300,000,000 to $400,000,000. Even this amount was quite inadequate to meet the demands of the smaller towns and country districts. In such places the use of cheques as a means of payment was not prevalent. Consequently, all money demands were settled by currency. The amount of currency available was altogether insufficient to meet seasonal demands.

In order to create more flexibility in the currency system, and to allow banks to reduce their circulation when necessary, an amendment was passed in 1874 to permit the national

[1] Kemmerer, E. W. "Agricultural Credit in the U.S.A.," *American Economic Review*, Dec., 1912, page 852.

[2] Eliot. *Op. cit.*, page 94.

banks to reduce their bond deposits to $50,000; and if they wished to reduce their circulation, then to release bonds upon the deposit with the comptroller, of lawful money in sums not less than $9000, to cover outstanding circulation. This made the situation easier for the banks, and relieved them from the burden of unnecessary currency circulation.

The greatest blow which the national banking system gave to agricultural credit was the imposition of a heavy tax of 10 per cent. in 1863, on the currency notes issued by the state banks. The tax on national bank notes was only 2 per cent. This meant the death knell of many small state banks which were the chief source of agricultural credit for the farmers in western and southern states. Their number decreased from 1466 in 1863 to 247 in 1868. The large state banks were converted into national banks, but the smaller ones died out.[1] This curtailed the media of circulation in those states. The inelasticity of the currency system had very serious effects on agriculture, because in agriculture the demand for currency is very seasonal. "Under the national bank system, every crop removing season brought a stringency which, even foreseen, was yet a critical period. For the farmer this involved prompt liquidation of loans, and consequently prompt marketing of his crops, even though prices were at the low point of the year. The results were equally serious for the banks and for industry as a whole, in that our financial structure was strained."[2]

There was constant agitation against such a rigid system of currency, and consequently efforts were made by amending the Act in 1900 to liberalize the currency. The tax on the national bank-notes was reduced from 2 per cent. to one-half of 1 per cent., and the banks were allowed to obtain notes up to 100 per cent. of the par value of the bonds, instead of 90 per cent. As a consequence of this, the number of national banks increased, and the bank-note circulation

[1] The causes which led to the revival and increase in the number of State banks in later years are explained on page 20.

[2] Eliot. *Op. cit.*, page 97.

increased from $265,303,018 in 1900 to $722,554,719 in 1914.[1]

**Bank Reserve Against Deposits**

The rigid regulations provided by the National Bank Act of 1863 for keeping reserves against deposits proved an even greater handicap than the unscientific system of bonded currency. But the idea underlying the regulations was a sound one—that of protecting the depositors; for confidence in banks had been undermined owing to frequent bank failures in the past.

The banks were divided into three groups for reserve purposes—

(1) central reserve,
(2) reserve, and
(3) non-reserve or country banks.

In the first group were included banks in the three big cities, New York, Chicago, and St. Louis; the second included about one hundred of the larger cities, and the third the remainder of the country. The central reserve and reserve banks were required to keep a reserve of 25 per cent. of their deposits, and the country banks were required to keep 15 per cent. Moreover, these last were allowed to keep three-fifths of their reserves with the reserve banks in the cities. The banks in the reserve cities were allowed to keep one-half of their reserves in the central reserve city banks.

The law prohibited all the national banks from increasing their loans or discounts, or from paying any dividends, in case the reserve fell below the legal minimum. The fundamental defect in this system was that there was no co-operation between the banks, and that there existed no organization to bring about such a desirable co-operation. There was a complete absence of any central reservoir from which funds could be tapped in a period of emergency. During slack seasons when funds were lying idle the country banks were tempted to send a part of their funds to the cities for investment, where they were utilized for speculative

[1] The changes brought about by the Federal Reserve Act are discussed in another section.

purposes. But during the crop removing seasons there was always a pressing demand for funds in the country districts. Unfortunately, there was no central agency which could distribute such funds wisely and economically to meet pressing requirements. In periods of stringency everybody selfishly tried to obtain as much currency as possible, and to protect his own interest without caring very much for the interests of the public. Under this decentralized system of reserve keeping there was uneven distribution of funds. In some parts of the country abundant funds were lying barren, while in other parts there was great scarcity. There was no agency available which could step in at such periods to help the struggling banks; also there was no agency through which the banks could sell their securities and short-term assets to meet the situation. At times of panic every bank was trying to protect its own funds.

Some of these defects were removed by the opening of the federal reserve banks. Before we attempt to analyse the situation created by the federal reserve system we shall examine the extent of loans given by the national banks to the agricultural industry.

### Extent of Loan to Farmers

The banking capital of the country is centralized to a great extent in big cities, and by reason of their location the city banks are not in a position to advance money to the farmers. "Of the 7301 national banks in the United States, 1st September, 1911, 192 or 2.6 per cent. were located in the dozen largest cities of the country. The national banks of these twelve cities, representing but 14 per cent. of the population of the country, had 37 per cent. of the national banking capital, 33 per cent. of the individual deposits, and 40 per cent. of the loans."[1]

Unfortunately, there are no figures available to show the amount of short-term loans advanced by the national banks to the farmers. As already pointed out the national banks were prohibited by law (before the passing of the Federal

[1] Kemmerer, E. W. "Agricultural Credit in the United States," *American Economic Review*, Dec., 1912, page 852.

Reserve Act in 1913) from making loans on real estate. But it can be safely said that small national banks in agricultural districts played a very important part in financing the agricultural industry, and the major proportion of their loans was to the farmers. The security on which the loans were advanced was mainly personal and chattel. As the banks could not lend money for long-term, the general procedure was to lend money for short periods and the loans were renewed very frequently. The banks, in addition to supplying short-term loans, very often acted as agents for insurance companies and other investors who were prepared to lend money on mortgage security for longer periods of years. But the main loans of the national banks were given to merchants and traders who wanted money for comparatively short periods, and could furnish better security. The law relating to national banks was conservative, and expected the banks to carry their business within very safe limits. Loans to agriculture were not considered very safe for various reasons. In the first place there was no tangible security. The best security for short-term loans which a farmer can offer is his crops, and live-stock. But the crops are at the mercy of nature, and a hundred and one other circumstances which are entirely outside the control of the farmer, and the creditor can exercise but little control over cattle, etc. In the second place the turnover in agriculture is so slow that a bank must be prepared to extend credit for a comparatively long period. On the whole, in spite of the efforts on the part of national banks to provide as much accommodation to the farmers as was possible within the safety limits, the plight of the farmers was serious.

In 1908, Congress appointed a National Monetary Commission to inquire into the defects of the national banking system, and to recommend changes. This commission made a thorough investigation into the banking problems both in the United States and abroad, and in 1912 reported the following defects in the system.[1]

1. Each bank had to keep a rigid decentralized reserve

[1] Report of the National Monetary Commission Senate Document, No 588, 61 Congress, 2nd Session.

which could not be pooled for effective use. This created a tendency in times of distress to safeguard their own interests—by drawing to themselves a maximum of reserves.

2. Central reserve cities regarded the reserve of country banks as individual deposits rather than a central reserve for common use.

3. The reserves were inelastic, as banks were not permitted to make further loans when the reserve dropped below the minimum.

4. There was scarcely any centralized reserve and no market facilities which permitted reserve mobilization during periods of stringency. Also facilities for direct borrowing were limited, since, when trouble appeared, each bank began hoarding for itself and panic conditions were almost inevitable.

5. The currency was not based on the needs of trade, but rather followed the price and profitableness of government bonds. The limitation placed on the redemption of notes discouraged banks from issuing notes for temporary needs. The bonds available for note issue varied with the revenue demands of the government, rather than with the needs of trade for currency.

6. There was no effective centralization or co-operation for purposes of clearing checks, distribution of funds, or protection in crises.

7. There was no standard security market where banks could invest and liquidate according to needs. On account of the narrow discount market, banks allowed their funds to accumulate in New York, where they could get interest on their deposits. These funds were lent largely on call loans to brokers, and were not used for promotion of trade and industry.

These defects were removed to a considerable extent under the federal reserve system.

**Farmers' Short-term Borrowing**

The total short-term indebtedness of the farmers in 1910 was estimated by George K. Holmes as follows[1]—

[1] Eliot. *Op. cit.*, page 98.

| | |
|---|---|
| Chattel mortgages | $700 million |
| Crop liens (other than cotton) | 450 ,, |
| Cotton crop liens. | 390 ,, |
| Unsecured to local merchants | 250 ,, |
| Other unsecured | 410 ,, |
| | $2200 million |

**Rate of Interest**

The usefulness of credit is largely determined by the price paid for it. It was alleged by the agricultural interests that the price asked for such accommodation was altogether out of proportion to the benefits derived by the farmer from its use. On the other hand, the banks alleged that owing to the great risks involved in such lendings, and the unliquid character of the loans, the rates charged were fair. The rate of interest varied according to geographical situation, and not only were there prevalent different rates of interest in different parts of the United States, but also in the different parts of the same state the rate varied according to the situation of the clients.

The rates of interest were lower in the thickly populated and well-developed eastern states, and were the highest in the comparatively new states of the south. In the Middle Atlantic States the average rate of interest on loans over £100 in March, 1920, was 6.01 per cent., and in the west-south central states it was as high as 9.66 per cent. In the state of New Hampshire the rate was 5.98 per cent., but in New Mexico 10.17 per cent. But these rates of interest only show the rate charged by individual banks, and in no way fully reflect the total cost of credit which is generally higher than is indicated by the general rate. For instance, there are many banks which insist that their clients should keep a minimum balance with them on deposit. This means that the actual accommodation provided by the banks is smaller than the nominal accommodation, and consequently the rate of interest naturally higher. The average minimum balance required is 16.3 per cent. of the loan. Many banks persist in collecting the interest in advance, which increases the cost of credit to the farmer. The number of those banks which follow such a practice is about 40 per cent.,

and they represent two-thirds of the loans. If we take into consideration such charges the real rate of interest increases tremendously. It was estimated by the Department of Agriculture[1] in 1921 that these charges represent from 0.2 per cent. in Delware to 3.6 per cent. in Carolina. Then the total cost of loans runs from 6.2 per cent. in Connecticut and Delware to 15.6 per cent. per annum in Oklahoma. These heavy rates imposed a great burden on the farming industry.

**Short-term Agricultural Credit under the Federal Reserve System**

The Federal Reserve Act was passed in 1913. The preamble of the Act states its purpose clearly. "An act to provide for the establishment of federal reserve banks, to furnish elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States and for other purposes."

The federal reserve system completely re-organized the commercial banking system of the country. Its effects on agricultural credit were sufficient, although not very pronounced and direct, to meet the short-term needs of agriculture to quite a considerable extent. The main defect in this system was that it hardly touched a large number of state banks. It provided an immense amount of credit for the agricultural industry indirectly by making the currency system elastic. The direct effects of the establishment of federal reserve banks on agricultural credit were as follows—

Before this Act national banks were not allowed to lend money on the mortgage security of real estate. In order to allow the national banks to provide some long-term credit on this security the following provision was made—"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal Reserve district, but no such loans shall be made for a longer time

[1] "Bank Loans to Farmers on Personal or Collateral Security," Bulletin 1048, Dept. of Agriculture, U.S.A., page 17.

than five years, nor for an amount exceeding 50 per cent. of the actual value of the property offered as security. Any such bank may make such loans in an aggregate equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits."

This provision opened a new channel of banking for the national banks, and a new source of credit to the farmers. Although the period of five years was very inadequate for long-term loans, it was adequate for intermediate credit. The position of the national banks became safer, as now they could lend with safety, on the security of the farm itself, up to 50 per cent. of its value. Before this provision they could only lend on personal and chattel security. In regard to this matter Governor Benjamin Strong of the Federal Reserve Bank of New York remarked: "It may be pointed out that the national banks in agricultural communities are now on a parity with state banks in making loans on farm lands, thus opening to them a very large and important source of new business and additional profit."[1]

As regards short-term credit, the greatest benefit derived by agriculture from the provisions of the Federal Reserve Act was through the rediscounting facilities for agricultural paper, and the open market operations. President Wilson in one of his speeches remarked: "For the farmers of the country we have virtually created commercial credit by means of the Federal Reserve Act." The Act authorized the federal reserve banks to rediscount "Agricultural Paper." Agricultural interests were favoured by extending the period of rediscount.

Agricultural paper has been defined as "a note, draft, bill of exchange or trade acceptance, drawn or incurred for agricultural purposes, or based on live-stock; that is, a note, draft, bill of exchange, or trade acceptance, the proceeds of which have been used, or are to be used, for agricultural purposes including breeding, raising, fattening or marketing of live-stock, and which has a maturity at the time of

[1] Strong, Benjamin. "Unification of Our Banking System under Federal Reserve Act," *Bankers' Magazine*, 1915, Vol. 91, page 1–6.

discount of not more than six months (this was extended to nine months in 1923), exclusive of days of grace."

A large amount of such paper is held by country banks, and represents loans made for production. Previously such paper was discounted only at periods of emergency and was considered a reflection on the integrity of the bank. The usual practice of the country bankers was to borrow money from their city correspondent on personal notes. The federal reserve bank gave a very liberal interpretation to the words "agricultural paper." Agricultural paper representing the purchase of fertilizers and necessary productive equipment was considered as eligible for discount.

#### Aid to Agricultural Marketing

The Federal Reserve Board pursued a very sympathetic and liberal policy towards Agriculture. It advocated the establishment of warehouses, and granted liberal credit on recognized warehouse receipts of stored agricultural products. The commodity paper rate secured by non-perishable and readily marketable agricultural produce stored in warehouses was fixed at 3 per cent. in September, 1915. In order to help co-operative marketing the Board accepted for rediscount drafts drawn by farmers on co-operative marketing associations which had been discounted by member banks.

#### Open Market Purchases of Bankers' Acceptances on Agricultural Products

Open market purchases of agricultural paper were allowed by the Federal Reserve Bank Act of 1913 in order to enable the reserve banks to control credit. A progressive step was taken by the Federal Reserve Board in December, 1922, when, in order further to encourage co-operative marketing, it declared its willingness to purchase in the open market banker's acceptances drawn by co-operative marketing associations with or without the endorsement of member banks. The only condition for such acceptances was that they should be secured by warehouse receipts, and should be based on readily marketable staple agriculture

products. "The orderly marketing of farm products has been aided both by rediscount, and open marketing transactions on the part of the Reserve Banks."[1] During March and April of 1925, the reserve banks purchased in the open market $247,000,000 of bankers acceptances, exclusive of acceptances bought on re-purchase agreement. About one-half of this amount was for financing the orderly marketing of agricultural products."[2]

The federal reserve banks have done a unique service to the farmers by standardizing their paper, and now they can borrow in the capital markets at comparatively reasonable rates of interest.

**State and Private Bank Loans to Agriculture**

For the better appreciation of the banking systems of the United States, it should be pointed out that the term "state bank" is frequently misunderstood. In the United States of America a state bank is one of innumerable small local institutions called "state banks" to distinguish them from "national banks," and all operate within the confines of their own states. Though regulated they are in no way controlled by any State Government. The national banks, although possessing a Federal Charter and operating in more than one state, are in no way associated with either State or Federal Government. (The Federal Government only exercises considerable regulatory control.)

**State Banks**

Before the establishment of national banks in 1863, the state banks were the most important source of agricultural credit. "In 1863 there were 1500 state banks with loans and discounts aggregating $648,601,863, and a bank-note circulation of $228,677,218. About three-fourths of these banks were located in the Middle West and in other agricultural regions."[3]

[1] Sparkes, E. S. *Agricultural Credit in the United States*, page 321.
[2] Federal Reserve Bulletin, No. 9 (1923), page 9.
[3] Sparks. *Op. cit.*, page 324.

The National Bank Act imposed a very heavy tax of 10 per cent. on the notes of state banks, which consequently weakened their position. Most of the bigger state banks after 1863 relinquished the State Charter and were converted into national banks. After a temporary period of eclipse the number of small state banks again increased. The main reason for this increase was that the state banking laws were generally much less rigid than the national law and the capitalization requirements for the State charter were comparatively small. The predominantly agricultural states of the west required only $5000 as the minimum capital to start a state bank. "Another important reason for the existence and the continuous increase in their number was that, with the exception of very few states, the state banks were allowed to lend money on the security of real estate. In various states the amount of loans on real estate varied from 5 to 10 per cent. of the total loans."[1]

**Short-term Loans to Agriculture**

The United States Department of Agriculture estimated that in December, 1921, the commercial banks held personal and collateral loans to the farmers amounting to $3,869,891,415. The farm mortgage loans made by the commercial banks were estimated at $1,447,500,000. This makes a total of $5,317,400,000 lent to the agricultural industry, which represents over 18 per cent. of the total loans and discount of all banks.[2]

**Period of Loans**

The United States Department of Agriculture made a survey in 1923 which showed that 52 per cent. of the loans made by national and state banks were for a period of one year or less; 72 per cent. of loans were for less than five years; and 26 per cent. for periods of at least five years.[3] The period of loan in agricultural regions was longer and in commercial ones shorter.

[1] Barnett, E. George. *State Banking in the United States*, page 23.
[2] Barnett. *Op. cit.*, page 54.
[3] "Farm Mortgage Loans by Banks, Insurance Companies and Other Agencies," Dept. of Agriculture Bulletin 1047.

### Purposes of Bank Loans on Real Estate

In 1923 it was estimated that of the total loans advanced by the commercial banks on the security of real estate, 18.2 per cent. were for the purchase of land, 55.3 per cent. for refunding mortgage and other debts, and 7.9 per cent. for building and other improvements.

### Private Banks

"Private Banks were usually organized either as an adjunct to the brokerage business in large cities or as an independent business for furnishing credit in small communities."[1] The new agricultural states were badly in need of credit in their early days, so private banks were mostly found in such regions where they found good business. These banks competed with the state banks. The fundamental character of these banks was the personal knowledge of the banker about his clients, and the small capital of the bank.

As a matter of fact, a considerable number of these banks was run and managed by one family on their saved capital. They provided both short- and long-term credit. The rates charged by such banks were excessive, and at periods of crisis failure of these banks was almost universal. They have rendered valuable services to the agricultural industry in its pioneering days, but now they have out-run the course of their usefulness. What is needed now is a strong system of chain or branch banking.

### Cattle Loan Companies

Since the Civil War the live-stock industry in the United States has grown by leaps and bounds up to 1928. Its progress can be realized from the following figures: "The number of cattle increased from 24,500,000 head in 1850 to 58,000,000 head in 1915; sheep increased from 29,000,000 head in 1850 to 42,300,000 head in 1915, and the export of pork products increased from an average of 128,294,000 pounds in 1871 to 1,528,139,000 pounds in 1901."[2]

[1] Sparks. *Op. cit.*, page 340.
[2] For details, see Larmer, F. M. *Financing the Live-stock Industry*, Chapter I.

Cattle loan companies or cattle loan banks were founded in order to meet the needs of the cattle industry. Cattle breeders required much bigger loans than it was possible for the local banks to provide. So new institutions were started to meet the requirements of this industry. Moreover, it required special knowledge to judge the security of such loans which the ordinary commercial banks were not competent to appraise, and they often suffered huge losses from such investments. The cattle loan companies were established either as separate departments of a commercial bank or as independent institutions. They provide both short-term and intermediate credit.

**Credit Provided by Machinery Dealers**

Machinery dealers have been and still are an important source of credit to the farmers, and it cannot be denied that without their help it would not have been possible to modernize agriculture so quickly. The value of farm implements and machinery has been increasing at a tremendous rate ever since the Civil War. Some idea of the extent of this increase may be obtained by reference to the following figures which Professor Kemmerer has prepared from the various census reports—[1]

VALUE OF FARM IMPLEMENTS AND MACHINERY IN THE UNITED STATES

| Year | Value | Per Cent. Increase |
|---|---|---|
| | $000,000 | |
| 1910 . . . . | 1,265 | 69 during the decade |
| 1900 . . . . | 750 | 52 ,, |
| 1890 . . . . | 494 | 22 ,, |
| 1880 . . . . | 407 | 50 ,, |
| 1870 . . . . | 271 | 10 ,, |
| 1860 . . . . | 246 | 62 ,, |

The value of machinery and farm implements per acre of land between 1901 and 1910 increased from $0.89 to $1.44 —an increase of 61.8 per cent. Most of this machinery was supplied by dealers on credit. Along with the machinery dealers the firms supplying artificial manures were also

[1] Kemmerer. *Op. cit.*, page 854.

supplying the farmer with a tremendous amount of credit, as the manures are sold on a deferred payment system. The value of artificial manures doubled between 1880 and 1900.[1]

"The farmer was once regarded as a miner whose prosperity depended upon the amount of fertility he could dig out of the soil each year in the form of crops. Where the soil was no longer fertile the mine was exhausted, and the farmer had to begin on new land. The farmer has turned gradually from the mining process to the manufacturing. Land and machinery are his factory and capital; fertility, natural and artificial, his source of power; and crops and animal products his manufactured goods."[1]

**Store Credit**

Store credit is used by the farmers for their daily requirements. The use of store credit has been very extensive amongst the tenant farmers of the south. The following reasons may be given for the use of store credit amongst the farmers and especially the tenant farmers, in spite of its high cost.

1. The banks do not like long loans and often refuse to make them; the tenant wants credit for nine months. From August to January it is generally hard to get money from the banks; this the storekeeper is prepared to provide, which means to him a lucrative business.

2. The banks do not find it profitable to make small loans, and the credit requirements of tenants are usually small.

3. The banks require adequate security for their loans which generally tenants are not in a position to furnish.

4. The only security which a tenant can furnish is a mortgage lien on his crops, which unfortunately is not considered as adequate by the banks.

5. This kind of credit requires close personal supervision of the tenants, which even the small banks can ill afford.

The merchant, on the other hand, is prepared to supply a reasonable amount of credit provided the tenants or the farmers agree to his terms which are far from lenient.

[1] Kemmerer. *Op. cit.*, page 854.

Usually the interest is deducted in advance, and the complaint that the borrowers are overcharged for their goods is universal. The rate of interest charged varies from place to place, and from person to person, but it is seldom under 10 per cent. In return the storekeeper takes a pledge of his crops as security. Very often the borrowers are compelled to sell their crops through the storekeepers. Taking into consideration all the handicaps under which the farmer is placed by such credit, the real cost is seldom less than 20 per cent. per annum.

**Long-term Credit**

Long-term credit has been generally defined as a credit extended for a period of from five to forty years or more. The raising of long-term credit for the financing of agriculture has been a peculiarly difficult problem. It is in relation to this form of credit that the nature of the agricultural industry has to be specially considered. Agriculture is fundamentally an individualistic industry, and is carried on by a vast number of farmers who are scattered all over the United States; on the other hand (with minor exceptions), modern industry is highly localized, and is run on a corporative basis. In order to finance industry money can be raised without any serious difficulty if the promoters can inspire confidence in the public. The usual method is to issue bonds. But a farmer being an individual has to mortgage his farm in order to borrow money.

Before we examine the change brought about by the federal farm loan system in financing long-term requirements of agriculture, we shall briefly describe the work of those agencies which were supplying long-term credit before the federal farm loan system came into operation.

**Agencies Supplying Long-term Credit**

1. Private individuals.
2. Farm mortgage companies.
3. Insurance companies.
4. State banks.
5. Other agencies.

**Long-term Loans Made by Individuals and Private Lenders**

Ever since the colonial development of America individuals

and private lenders have been the chief source of mortgage credit. Their activities at first were mostly confined to their neighbours and others whom they knew personally. Most of such lenders were those who had amassed a considerable amount of money in their early days, and had retired from their active professions. Lending money became the easiest way for them to make money. With the development of the country there grew up a special class who specialized in this profession, but even to-day their number is comparatively small. The bulk of such lenders are retired farmers. A good deal of credit provided by individuals consists in the sale of farms on a system of extended payments. In the predominantly agricultural states for any man who had saved some money the best and safest investment seemed to be in a farm mortgage. This system flourished, and is also quite common to-day, because the retired farmers are the best judges of farm property, and they can invest money with a certain amount of confidence. Investment in industrial securities is not very popular with the majority of farmers and other such classes, because they do not properly understand the value of such securities. Moreover, many of them have often suffered huge losses through speculative investments in industrial bonds which again is due to their lack of familiarity with such investments.

It has been estimated by the Department of Agriculture that 60 per cent. of the farm mortgage credit is supplied by private individuals and other agencies. The other agencies include trust companies, savings banks, building and loan associations and trustees.

Even in 1921, when the federal farm loan system had been in operation for five years, the credit supplied by private individuals and others far exceeded the proportion supplied by any other agency. In 1921, the estimates of the Department of Agriculture were as follows—

| | |
|---|---|
| Commercial and Savings Banks | 17 per cent. |
| Insurance Companies | 14 ,, |
| Land Banks | 5 ,, |
| State Agencies | 1 ,, |
| Mortgage Companies and Banks | 3 ,, |
| Private Investors | 60 ,, |

**Farm Mortgage Companies**

Farm mortgage companies came into existence somewhere between 1840 and 1850. The opening of the Middle West created a new demand for credit which could not be adequately met locally. In order to finance the new settlers, farm mortgage companies were established. Most of the capital of these companies was derived from the Eastern States. The Iowa Loan and Trust Company of Des Moines, Iowa, was the first mortgage company in 1881 in the United States to issue debentures.

**Farm Mortgage Bankers' Association**

The Farm Mortgage Bankers' Association of America, which is now called the Mortgage Bankers' Association of America, was formed in 1914. The association represents institutions lending money on mortgage security, and its membership includes banks, trust companies, insurance companies, mortgage loan companies, etc.

It was estimated in 1921 that members of this Association held approximately $2,000,000,000 in farm mortgages, or 25 per cent. of the estimated total farm mortgage indebtedness. Private companies who were not members of this Association held almost $1,200,000,000 or 15 per cent.[1]

**Organization of the Farm Mortgage Companies**

Farm mortgage companies are organized in big commercial centres with branches and correspondents in the country. Farmers desiring loans apply to their nearest branch office or correspondent, who sends it to the head office with his recommendations. Before recommending to the head office any application for a loan, the branch office makes local inquiries through its local correspondents who send back the application to the branch with confidential reports. The branch office makes the appraisal of the property, and forwards it to the head office. If the head office approves the loan the matter is put in charge of the company's legal department for the examination of titles and such other legal formalities.

[1] Chasse, E. D. *Chicago Journal of Commerce*, 27th Feb., 1922.

Local banks generally act as agents for mortgage companies and supply them with confidential information.

Loans are granted by the mortgage companies for a considerable number of years at reasonable rates of interest. These companies sometimes issue bonds on the security of mortgages in their possession, but the more prevalent system is to sell individual mortgages to private investors.

**Farm Mortgage Loans by Savings Banks**

The savings banks of Illinois, Iowa, Wisconsin, New Hampshire and Vermont states are the most important savings banks which supply long-term mortgage credit.

**Trust Companies**

Practically all states have trust companies whose principal function is to hold funds or property in "trust" for wards. They were one of the earliest institutions that provided money on mortgage security. They work under the state laws and are strictly supervised. The chief outlet for the investment of their funds is Government bonds, but they lend some funds on good farm mortgage security.

**Building and Loan Associations**

The activities of the building and loan associations are chiefly confined to financing city property. They provide very little credit on farm securities, but in certain states their farm loans have been quite considerable. In the state of Ohio the building and loan associations had 9843 loans in 1916 on farms which amounted to $21,621,752. Most of these loans were for a period of from one to five years, but there were provisions for extension. The rate of interest was only 6 per cent. These associations had lent a considerable amount of funds on farm securities in the state of Pennsylvania.

**Insurance Companies**

Insurance companies provide 14 per cent. of the total mortgage credit. In 1920, their total mortgage loans to agriculture exceeded half a billion dollars. Insurance

companies also act as agents to mortgage companies and other agencies who want to invest their funds in farm properties. The insurance companies invest a major portion of their funds in other than farm properties, as they must have a considerable proportion of their funds in liquid assets.

**Methods of Making Loans**

The method in making farm loans followed by the insurance companies is more or less the same in general principles as that of mortgage companies. They also purchase a large block of mortgages from brokers and mortgage companies after their own special examination of the securities.

**Duration of the Loans**

The duration of loans varies according to circumstances. The minimum may be one year, and the maximum may be thirty or thirty-five years. But generally long-term loans are made for periods of ten years and under. On the whole, the loans advanced by insurance companies have not been for a long enough period and the provision of amortization is far from general.

"The soundness of the farm financing situation lies in making long-term loans with liberal prepayment privileges. This plan eliminates the worries and expenses of renewals. The farmer may often be too optimistic and want a short-term loan, expecting to pay the debt out of a marvellous crop in a year or so, but experience shows that he needs to work on the basis of an average crop rather than the exceptional one."[1]

**Complaints Against Farm Mortgage Companies and Insurance Companies**

There has been a general complaint against farm mortgage and insurance companies that they do not adequately meet the need of the farmers. The length of their loans has been usually from five to ten years, which is not an appropriate period for long-term loans. The rates of interest

[1] Breiling, Louis, quoted by Sparks. *Op. cit.*, page 195.

charged have been comparatively high. To sum up, the insurance and farm mortgage companies have not been able to meet the requirements of the farmers for the following reasons—

1. Large local risks.
2. Unregulated and unexamined loans.
3. High cost of credit and higher rates of interest.
4. Unstandardized securities.
5. Short duration of loans.

**Large Local Risks**

From the fear of putting too many eggs in one basket these companies have been compelled to curtail the amount of their loans to agriculture. The risk in lending money to the agricultural industry is unusually large owing to the nature of the industry. Most of the insurance and mortgage companies do not operate all over the United States, but their activities are confined to a part of a state or to a few adjoining states. Under these circumstances the risk is too great for such companies to lend a greater percentage of their funds. A prolonged drought or other vagary of nature may destroy a considerable proportion of the security by disabling the farmers from meeting their obligations at the required time. Such companies are not themselves in such a strong financial position as to withstand such extraordinary shocks, and for that very reason the farmer has to suffer.

**Unregulated and Unexamined Loans**

Another great defect in the lending of money by such companies is the prevalence of unregulated and unexamined loans. They have not adequate staffs for the proper valuation of securities offered by the farmers, which require both local and technical knowledge. In good times, the amounts of loans in many cases have been altogether out of proportion to the real value of the securities. This has often led to speculation in land values. In bad times the farmer complains that such companies are not prepared to lend

even at a modest valuation. Speculation in land values has been the cause of the failure of many such companies. Moreover, in such a system there is no automatic check on the amount of loans advanced and no precaution for the proper control of credit. In periods of prosperity these companies have worked very well, but with the advent of bad times their way has not been very smooth.

**High Cost of Credit and High Interest Rates**

The biggest complaint against the insurance and mortgage companies has been the high interest rates charged by them. For instance, the rates charged by insurance companies have been higher on farm loans than on urban loans. The rates vary from state to state, ranging from 5 per cent. in Massachusetts and Vermont to 8.15 per cent. in Utah.

In addition to the interest the farmers have to pay various commission charges which run to quite a handsome figure, and at every renewal they have to be paid over again. The rate of commission also varies from state to state. In North Dakota the commission charges are 1.8 per cent., in South Dakota 1 per cent., Oklahoma 1.8 per cent., North Carolina 1.4 per cent., Georgia 1.1 per cent., and Montana 1.6 per cent.[1] From these figures it is clear that the commission charges are the lowest in those states where large amounts of funds for investment are readily available; and in the comparatively newer states where funds are scarce the commission charges are higher. The commission charges are an especially important item when the period of loans is small, and renewals are frequent. Statistics collected in 1921 show that the average length of a mortgage is from three to four years, with frequent renewals.

Figures for life insurance companies' loans also tell a similar story. Half of them were lending for periods not exceeding five years, and the remaining half for periods not exceeding ten years. There were very few companies which lent for more than ten years. This means that the farmer

[1] Robins, Knigman Nott, *Farm Mortgage Handbook*, quoted by Sparks. *Op. cit.*, page 184.

has to pay a much higher price for his credit than what is apparently reflected in the interest rate. The problem becomes an acute one when debts are incurred at a time of rising prices, and are to be repaid at a time of falling prices.

**Unstandarized Security**

The chief service which the federal farm loan system has rendered to agriculture is that it has standardized the farmers' security. Before this system came into operation there was no standard farm security. There were some mortgage companies which issued a limited amount of debentures on the security of farms which they held, but the general system was the individual mortgage. There were investors who bought these mortgages from insurance and other institutions, but the amount sold was not very large. There was no open market for such securities, and only those people could afford to invest their money in such a form who could wait for a long period.

The price of any security depends to a large extent on its marketability. If a security is easily marketable the rate of interest is lowered, and if there is no ready market the investors must be compensated by a higher rate of interest. The farm securities being unstandardized were not easily marketable, and consequently bore a higher rate of interest. Thus, through no fault of his own, the farmers' securities, although in general sound, were not easily marketable, and for their borrowings the farmers had to pay a higher rate of interest.

**Short Duration of Loan**

Nothing is more troublesome than uncertainty with regard to the duration of loans. The farmers were never certain whether they would be able to get their loans renewed without any trouble. The borrowed funds were invested and did not yield sufficient results until after a considerable period of years. It was not possible for the farmers to liquidate their loans if the renewal was denied. The consequences in many cases were disastrous, especially at

a period of falling prices. The inadequate duration of the loans advanced by insurance and mortgage companies was one of the chief causes of the farmers' agitation which eventually led to the passing of the Farm Loan Act, which we shall examine in the next chapter.

# PART II

# INSTITUTIONAL

## CHAPTER II

### THE FEDERAL FARM LOAN SYSTEM

**Agitation for Better Credit Facilities**

In the previous chapter we have briefly described the work of those agencies which were supplying credit to the farmers, and we have also seen that they were not able to cater fully for the farmers' credit needs. The rapid increase in the commercialization of agriculture and the increasing use of costly machinery and artificial manures enhanced the farmers' demand for credit. Land values were steadily rising up to 1920 and land was getting scarce. With the increase in land values the ownership of farms became increasingly difficult, and this led to great discontent and agitation. Public interest in the subject was seriously aroused with the publication of the report of the Country Life Commission in 1908, which remarked that among the causes which contribute to the deficiencies of country life was "a lack of any adequate system of agricultural credit whereby the farmers could readily secure loans on fair terms." The Commission suggested that "a method of co-operative credit would undoubtedly prove of great service."

This led to great interest in co-operative credit and many enthusiasts believed that such a system would prove a great palliative to the ills of agriculture. This idea was further strengthened by the publication of the report of the National Monetary Commission which gave a vivid account of the German "Landschaft" system of farm mortgage credit. The periodical and newspaper literature of this time is full of accounts of the European credit system, which clearly shows the amount of interest which was attached to this problem. Many individual inquiries were also made.

In March, 1912, President Taft instructed the United States embassies in Germany, France and Italy and the legations in Belgium and Netherlands to inquire into the land credit system in those respective countries, and to submit their reports. Their report, known as the *Preliminary Report on Land and Agricultural Credit in Europe*, was published in October, 1912. "This movement soon took a political aspect. The three political parties assembled in National Convention in 1912 adopted plans favouring the improvement of agricultural facilities."[1]

**The American Commission**

At the annual meeting of the Southern Commercial Conference in 1913, the question of land credit was seriously discussed. The interest and consequent discussion arose out of an address delivered by the Hon. David Lubin, who for several years was a United States delegate to the International Institute of Agriculture at Rome. Mr. Lubin asserted in his address that the American farmer has much to learn from European experience. The meeting passed a resolution that a commission consisting of delegates of various states in the United States and provinces in Canada should be appointed to study the European system. Twenty-nine states and four provinces of Canada appointed a total number of seventy delegates, and the body was called the "American Commission on Agricultural Credit and Co-operation."

The commission was divided into four sections—

1. Finance or Agricultural Credit;
2. Co-operative Production;
3. Co-operative Distribution;
4. The Organization of Rural Life.

While this commission was in process of organization great political pressure was applied to the Government, and Congress passed a law authorizing the President to appoint a commission of seven members to co-operate with the American Commission especially in regard to the study of rural credit institutions in Europe. This commission was

[1] Wright, Ivan. *Farm Mortgage Financing*, page 49.

called the United States Commission. For all practical purposes these two commissions were amalgamated into one, and had a common chairman.

The report of these commissions contained a vast mine of information collected in a voluminous document of over 900 pages, and it attracted a good deal of public attention. The general conclusions recorded by them were as follows—[1]

1. The farmers require different institutions for short-term and long-term credit. It is not possible for the same institution to cater for both these needs.

2. The long-term system is more important and steps should be taken first to reform this system. The Commission recommended the establishment of suitable machinery under federal supervision. It was believed that private initiative could not be depended upon to reduce the farmers' rates of interest, and improve the method of making loans.

3. The commission recognized the value of co-operative effort and the wisdom of permitting co-operative institutions to be recognized, but it was of the opinion that the German Landschaft co-operative system was not suitable to American conditions.

4. Government aid was not only unnecessary, but would be unwise. The report of the commission also included a draft of a proposed rural credit law which was later commonly known as the Moss-Fletcher or Commission Bill.

The main provisions of this bill were that independent small joint-stock land banks should be opened. The capital of these banks was originally fixed at $10,000, but later increased to $100,000. The banks were to be authorized to issue bonds on the security of first mortgage farm lands held by them. They were to work under federal supervision, and were to make direct loans to farmers. When the sixty-third Congress opened its session, President Wilson in his first message laid great stress on the importance of rural

[1] "Agricultural Co-operation and Rural Credit in Europe," Senate Document No. 214, 63rd Congress.

credit, and called the attention of Congress to the passing of such a law. It was the first time in the history of Congress in the United States that it was called upon to pass a law to improve farm credit facilities in the United States, and to reduce the rates of interest.

A large number of bills were introduced in both houses of Congress. The United States Commission Bill was introduced on 29th January by the Hon. Duncan U. Fletcher in the Senate, and in the House by the Hon. Ralph A. Moss.

The Commission Bill was very severely criticized by agricultural interests. The Senate and House Committees on Banking and Currency had appointed sub-committees on rural credit. These two sub-committees held joint hearings, and submitted a joint unanimous Bill. This Bill was introduced in the Senate on 12th May, 1914, and was generally called the Hollis Buckley or "Sub-Committee" Bill. The Bill provided for five regional federal land banks with the power of issuing bonds like the Commission Bill. An important difference was that farmers were not to obtain direct loans from the banks, but were compelled to become members of farm loan associations through which loans would be available from the federal land banks. But the fundamental difference between the Sub-Committee and Commission Bill was that the Sub-Committee Bill had a provision for federal aid.

This aid was to be given in two forms.

"Every federal land bank, and every farm loan association, including the Capital stock, reserve or surplus is made exempt from federal, state and local taxation, except taxes on property."

"If within ninety days after the opening of the subscription books, the minimum amount $500,000 of capitalization of any federal bank shall remain under-subscribed, the Secretary of the Treasury is authorized to subscribe the said unsubscribed balance."

6. "Upon the application of one or more federal land banks, and upon the recommendations of the federal reserve bank, the secretary of the Treasury shall purchase

from federal land banks farm loan bonds in an amount not to exceed $50,000,000 in any one year."[1]

Great controversy arose over the provisions of this Bill. The clause providing for Government help was severely attacked by the money-lending interests, while the advocates of state help to agriculture were not satisfied with this qualified and meagre assistance. The agricultural interests wanted an entirely state-owned and state-managed institution to provide an indefinite amount of credit to meet the needs of the farmers at a very moderate rate of interest. They strongly objected to private banks which were organized mainly for the purpose of making profits for private investors. They could not understand why the tax-payer should be sacrificed to enrich the investors. The tax exemption of these bonds was not justifiable.

**The Senate Commission Bill**

On 19th February, 1915, the Senate Committee on Banking and Currency reported on the report on the Sub-Committee Bill. It rejected most of its provisions and itself drafted a new Bill. The Senate Committee's Bill is in a way a combination of the provisions of the Commission Bill and Sub-Committee Bill. In addition to these three officially approved bills, many more private bills were introduced, but they did not reach many further stages. The Senate Committee Bill with few amendments was finally passed as the Federal Farm Loan Act, and President Wilson signed it on 19th July, 1916, It is clear from the previous account that the Act is an outgrowth of social, economic and political pressure which was brought upon the Government to afford the same credit facilities to agriculture as were available to other industries. The preamble of the Act set forth its purpose as follows—

"An act to provide capital for agricultural development, to create a standard form of investment based upon farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create

[1] Federal Farm Loan Act, 1916. Public Document No. 158. Circular No. 4, Federal Farm Loan Board, page 67.

Government depositaries and financial agents for the United States and for other purposes."[1]

**Principles of the Federal Loan System**

The fundamental principle underlying this Act is the standardization of farmers' securities through their own co-operation with a limited amount of State help, if needed. This theme becomes quite clear when we study the main provisions of the Act.

**Main Provisions of the Federal Loan Act**

THE FARM LOAN BOARD. In order to carry on the provisions of the Act a board called the federal farm loan board, consisting of five members, was created. The Secretary of the Treasury was the ex-officio chairman. The number of members was increased from five to seven in 1927. The Treasury Department of the United States has organized a Federal Farm Loan Bureau for the effective working of the system. This Bureau works under the direction of the farm loan board. The members of the board are appointed by the President of the United States. The Act provides that all members shall not be chosen from the same political party. They must be citizens of the United States, and shall be full-time employees. Members of the board are not allowed to become directors or take any part whatsoever in the business of any money-lending institution.

TERM OF OFFICE. "One member shall be designated to serve two years; one six years; one eight years, and thereafter each member shall serve for eight years."[1]

One member of the Board is designated by the President as the Farm Loan Commissioner who is the active executive officer of the Board.

POWERS OF THE BOARD. (*a*) The federal farm loan board was given the power to appoint farm loan registrars, and land bank appraisers in each land bank district. For this purpose the whole area of the United States was divided

[1] The Federal Farm Loan Act, 1916. *Op. cit.*, page 1.

into twelve districts. The board has wide powers of supervision and control over the entire systsm.

(*b*) To organize and charter the district land banks and to charter the national farm loan associations and joint-stock land banks. The Board may influence state legislation, to the extent that it may refuse to grant loans in any state, the laws of which do not, in the judgment of the Board, fairly insure the rights of holders of first mortgages.

(*c*) To make alterations in the rate of interest charged by the federal land banks. The authors of the Act expected that the Board shall do everything in its power to make the rates of interest uniform throughout the United States as far as possible.

(*d*) To supervise the bond issues of both federal and joint-stock land banks and their funds. To any specific issue of farm loan bonds which it considers objectionable, it may refuse its permission, and in that case the bonds shall not be issued.

**Re-organization of Farm Loan Board and Farm Loan Bureau**

In 1927, after ten years of experience, it was discovered that the time had arrived to re-organize the Board and the Bureau in order to carry on the work efficiently. In May, 1927, three members of the board resigned, and the President appointed three new members in their place. The new board took immediate steps to re-organize the Farm Loan Bureau. The chief reason for the re-organization of the Bureau was to inspire public confidence which had been shaken owing to the failure of a number of the joint-stock land banks.

The Federal Farm Loan Act of 1916 had a clause to the effect that the federal and the joint-stock land banks should be examined at least twice a year, and the national farm loan associations, at least once a year. This clause was not fully carried out by the Bureau. Examinations were seldom made, and even those that were made were not thorough. As a consequence the weaknesses of many banks remained unobserved.

In 1926, Congress made available a greater amount of

funds for the Bureau, a large examining staff was appointed, and an examining branch opened. The appraising branch of the Bureau received a considerable amount of attention and its staff was strengthened. Many other improvements were made in the machinery of the Bureau. The new board took steps to improve the management of the federal land banks. In two federal land banks the executive staff was overhauled. This process went on during the year 1923. In 1928, the Board took a very wise step in deciding that the executive officers of the federal banks should not be appointed from the directors. The task of re-organizing the Bureau was completed in 1929.

**Federal Land Bank**

The first task of the federal farm loan board was to divide the area of the United States into twelve districts to be apportioned "with due regard to the farm loan needs of the country, but no such district shall contain a fractional part of any state."

In each such district the Board established a federal land bank. The district federal land banks were allowed to open new branches, or employ agents within their district subject to the approval of the Board.

**Temporary Organization**

In order to get the system started each federal land bank was to be managed by five directors to be temporarily appointed by the Board.

**Permanent Organization**

Provision was made that when subscription to the stock of federal land banks by national farm loan associations shall have reached the sum of $100,000, the permanent organization shall consist of nine directors who shall hold office for three years. The national farm loan associations were to choose six directors, and the remaining three directors were to be appointed by the federal farm loan board to represent the public interest. By an Amendment of 1923, the number of total directors was reduced to seven. Three were to

represent the farm loan associations, three were to be appointed by the federal farm loan board to represent the public interest, and one director at large, nominated by farm loan associations and borrowers through agencies and chosen from the three highest nominees by the farm loan board.

**Capital**

The minimum subscribed capital of the federal land banks for starting the business was fixed at $750,000. The capital stock was divided into shares of $5 each, so that even persons of small means would be able to subscribe. The shares were thrown open to the public as well as to the State Governments, and provision was made that any shares which remained unsubscribed within thirty days after the opening of the subscription shall be taken up by the United States Government, and paid for out of the national treasury.

**Retirement of Shares**

The original idea of the authors of the Farm Loan Act was to encourage co-operation amongst the farmers, and they designed that all the capital of the banks should be eventually subscribed by the national farm loan associations. In order to facilitate this end, provision was made that ultimately the bank may retire at par all shares held by original subscribers other than farm loan associations. Unfortunately, the public took very little interest in the initial land bank stock. There were two reasons for this: firstly, that the public did not expect large profits from this stock, and, secondly, that none but the farm loan associations and the Federal Government had the right to vote.

The support from the public was very disheartening in the beginning; consequently, the United States Government was compelled to subscribe the major proportion of the stock—$8,892,130. The public subscribed only $113,490. After 1922 public confidence gradually increased, and by 1930 the entire stock (except in two banks) was subscribed by the farm loan associations through their borrowers.

The capital, reserve or bonds of all land banks and farm loan associations are free from income tax.

**Reserve Requirements**

Both federal and joint-stock land banks are required to carry semi-annually 25 per cent. of their net earnings to reserve until a reserve of 20 per cent. of the bank's outstanding capital is reached. After it has reached 20 per cent., 5 per cent. of the net annual earnings must be transferred to the reserve fund. Each bank is required to open a suspense account to represent the amount of defaults. After two years from the date of default this is debited to the reserve. After meeting all these obligations the balance is available for paying dividends. The dividends of the banks have varied from time to time. Prior to 1919 no dividends were declared.

**National Farm Loan Associations**

Loans are granted by the federal land banks only through national farm loan associations. Any ten or more farmers can form a farm loan association. In common language these associations are called "local." No persons other than borrowers on farm mortgage are allowed to become members or hold shares of national farm loan associations. Persons who desire to borrow money from the federal land banks have to become members of the "local," and have to subscribe towards the shares of the local an amount equal to 5 per cent. of the value of the loan desired. For instance, a farmer who desires to borrow $1000 from the federal land bank of his district must purchase shares of the local to the amount of $50. The minimum sum which the federal land banks can advance is $100, and the maximum under the original Act was $10,000, which proved insufficient, and was later raised to $25,000.

The local associations, in order to be eligible to borrow money from the federal land bank of their district, must at least desire a loan of not less than $20,000. The idea in fixing this minimum was to discourage the multiplicity of very small associations. The members of the associations

were to choose a board of five directors. Every member has one vote for every share subscribed. But in order to help the spirit of co-operation, the maximum number of votes which any person can possess is not more than twenty. The directors then elect president, vice-president, secretary-treasurer, and a loan committee of three members. The services of the directors and other officers except the secretary-treasurer are gratis.

New members may be admitted after the formation of the society on the vote of two-thirds of the directors. Persons who are not bona fide farmers and have no immediate intention of becoming so are not eligible to become members. On a two-thirds vote any member who in the opinion of the association is undesirable may be expelled from the association. The idea underlying this clause is to exclude land speculators and non-resident landlords who have no interest in agriculture at heart, but just want to exploit others. These safeguards are set up with the intention that the bona fide farmers in each community may control the system in their own interests.

### Capital of the Associations

There is no limit to the maximum capital subscribed by the associations. But the minimum in no case should fall below $1000, because associations desiring loans of less than $20,000 are not eligible to borrow. If any member of the association defaults in the payment of either interest or principal, the association is required to make it good. Provision has also been made for the dissolution and receivership of any association which fails to meet any of its obligations of any description.

Each association has to subscribe to the stock of its district federal land bank an amount equal to its own stock subscribed by its members. Each association receives dividends upon its shares in the federal land bank of its district.

### Reserve

The farm loan associations are required to accumulate a

reserve equal to 20 per cent. of their outstanding capital stock. Until this surplus is accumulated the associations must transfer semi-annually 10 per cent. of their net earnings to the fund created for this purpose. After this fund has reached the required figure of 20 per cent. of their outstanding capital stock, 2 per cent. of the net earnings must be transferred every year to this fund. Whenever the reserve falls below 20 per cent., it must be restored to this figure before any dividends are declared. The federal farm loan board has laid down rules for the investment of the funds of this reserve. If any association is voluntarily liquidated, this fund must be transferred to the district federal land bank, and it becomes the property of that bank.

**Loans to Members**

The federal land banks advance loans to the members of these associations up to 50 per cent. of the appraised value of the land, and 20 per cent. of the value of improvements. Loans are made only to farmers on the first mortgage security of land for the following purposes—

(*a*) To provide for the purchase of land for agricultural uses.

(*b*) To provide for the purchase of equipment, fertilizers and live-stock necessary for the proper and reasonable operation of mortgaged farm.

(*c*) To provide building for the improvement of farm lands.

(*d*) To liquidate indebtedness of the owner of the land mortgaged, either incurred for agricultural purposes or incurred prior to 1st January, 1922.[1]

The maximum amount which a farmer can borrow is $25,000,[2] the minimum being $100. The tendency of the Board has been to discourage large borrowings and to give preferential consideration to small borrowers. In places where there are no associations the Board has authorized the federal land banks to advance loans to individuals through its agents. Such agents must be a duly incorporated

[1] See Willis, P. H. *Federal Reserve Banking Practice*, page 291.
[2] The maximum limit was raised from $10,000 to $25,000 in 1923.

bank, trust company, mortgage company, or savings institutions operating under a State Charter. Very little advantage has been taken of this clause.

### Interest Rates

The maximum interest rate which the federal land banks can charge has been fixed at 6 per cent. The banks began business lending at 5 per cent., but on account of the War and stringency in the money market, the rate was raised to 5½ and later to 6 per cent. The rate has fluctuated from time to time, as the Act also provides that banks shall not charge a rate of interest exceeding by 1 per cent. what they had paid for their last bonds.

### Capital Stock

As has been already pointed out, the borrowers have to subscribe one share of capital stock of $5 each for every $100 borrowed, irrespective of whether the money is borrowed through the farm loan association or through the "agents." If it is borrowed through the farm loan association the borrower has to subscribe one share of capital stock (of $5) of the association for every $100 borrowed. In return the association subscribes an equal amount of its district bank stock. The farmer has the option of either paying outright for his capital stock, or he can have the capital stock deducted from the loan. The federal land banks pay dividend on their stock and the farmers receive it through their associations.

When the loan is paid off, the par value of the stock is paid back to the borrowers, and they automatically cease to be members of their local associations.

These stock-shares serve a threefold purpose—

1. It is an initial step towards the security of the loan.

2. It is owned by the borrowers. This places the control of the local associations, and ultimately of the district bank, in the hands of the borrowers.

3. It keeps the banks replenished with funds to lend. The banks are authorized to lend up to twenty times their capital and surplus.

**Responsibility of Farmers**

"Shareholders of every farm loan association shall be held individually responsible equally and ratably, and not one for another, for all contracts, debts, and engagements of such associations to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares."[1]

In plain words the shareholders would be responsible to the extent of twice the value of their subscribed shares. In the ordinary limited liability concerns the shareholders are responsible only to the value of their subscribed shares. This clause was inserted so that the farmers' association should be careful in recommending loans. In the German associations the liability of the members is generally collective and unlimited. But it was found that American soil was not suitable for the growth of the unlimited liability seed, and so in order to retain some co-operative features, the authors of the Act thought that to suit American conditions, and at the same time to encourage co-operation amongst the farmers, their associations must have some idea of mutual welfare and should have some distinguishing feature from the ordinary limited liability concerns.

Another motive underlying this clause was to inspire the confidence of investors in the new system. Public confidence in farm mortgage loans was badly shaken owing to the unsound practices of many private banks and mortgage companies. It was with the same idea in view that the investment in the stock and bonds of the system was made attractive by exempting them from income tax.

The twelve land banks are mutually liable for each others' loans.

**Functions of the Farm Loan Associations**

The farm loan associations are based on co-operative principles, and their principal function is to act as the local agencies through which loans can be obtained from the

[1] The Federal Farm Loan Act, 1916, *op. cit.*, page 7. This liability was reduced to the nominal value of the shares by the Farm Credit Administration Act of 1933.

land banks. Each association goes through the loan applications of its members, and verifies the desirability of the loan. If it is satisfied that the loan is desired for genuine productive purposes, it endorses their applications, receives the money from the federal land bank from which the loan is to be granted, pays the money over to the borrowing member, receives the borrower's semi-annual instalments for the payment of interest and principal, and forwards such funds to the bank to be credited to the borrower's account.

**Encouragement of Thrift**

The farm loan associations do not do any banking business or receive deposits to be operated on by cheque. However, in order to encourage thrift among its own members, and to accumulate savings with which to buy the federal farm loan bonds, they receive savings deposits. Non-members are also allowed to deposit savings. For each deposit the associations issue their certificate bearing 4 per cent. interest. The depositors are not allowed to withdraw their savings in cash, but it is convertible only into farm loan bonds. These certificates must be presented at the federal land bank of the district in any multiple of $25.

These deposits are transmitted by the local associations to the land bank of their district to be invested by it in the purchase of the farm loan bonds issued by any federal land bank. The object of this purchase is to encourage thrift and to enable the people of small means to invest their petty savings in the land banks. In this way the funds of agricultural districts are utilized for agricultural purposes.

**Cost of Securing a Loan**

The borrowers are required to pay the following fees to meet the expenses of the loan—

1. The application fee to cover the cost of appraisal and the expenses of the local association.
2. The cost of title research.
3. The preparation of an abstract.
4. The recording of papers.

5. Not more than 1 per cent. commission to the locals on the amount of loan applied for.

The application fee is fixed at $10 for all applicants. Other expenses vary for each individual farmer. The local associations are allowed to charge 1 per cent. commission to meet their expenses. Applications for loans are scrutinized by the loan committees of the locals consisting of three members. This committee examines the land offered as security and appraises its value. The directors of the local have no right to approve any applications for loans which, are not approved by the loan committee. They may. however, amend the recommendations of the loan committee. No member is allowed to sit on the loan committee when his own application for a loan is being considered. The law provides penalties of fine and imprisonment for members of the Committee who take or accept any commission, gratuity, emolument or bonus, directly or indirectly, as a consideration for the granting of any loan. The law also provides the same severe penalties for those applicants who knowingly make any false statements in their application.

For the guidance of local appraisers the farm loan board have the following directions in appraising the value of land—

"The appraisement of a farm should represent the best judgment of the members of the loan committee as to the value of land in question, the principal factor being the productivity of the land when used for agricultural purposes, but also taking into consideration the fertility of the land and prevailing land prices in that community."[1]

**Federal Appraisers**

Before any mortgage loan is made by any federal land bank, the bank refers the application with the written report of the loan committee to the appraiser, who is appointed by the farm loan board. This federal appraiser investigates, and makes a written report to the land bank upon the real estate offered as security. He takes into consideration all the farmer's property, both real and

[1] Minutes of Federal Farm Loan Board, 1st June, 1917, page 20A.

personal, as well as his prosperity and business operations. In valuing the farm the valuers give due regard to the character of the farmer in addition to the thorough examination of the property offered as security, because the ultimate security is the character of the farmer himself. If he is a keen business man, and keeps careful accounts and other necessary information regarding his farm, it gives a good impression to the valuer, and makes the appraiser's job easier. The Board have commented on the duty of the land bank appraiser as follows—

"We think it is highly desirable that the appraiser determining values should give you all the information he can procure concerning the applicant, and if he sees enough of him to form a judgment that he should express that judgment. If in the judgment of the appraiser the loan should be rejected, because of the personality of the applicant, the bank should give great consideration to such a report, and such loans should be scrutinized with the greatest care, as it cannot of course be regarded as a sound business policy to make loans which involve foreclosure, even if they involve no question of ultimate loss."[1]

**Period of Loans**

Loans can be obtained from the federal land banks for a minimum period of five years up to a maximum period of forty years. Within this period the applicants are at liberty to state any period in their application for which they want to borrow. The borrowers have the further option to pay off their debts earlier if they wish to do so. This option is most important from the borrowers' point of view. A farmer who has borrowed for a longer period and finds that he is able to meet his obligations earlier than the specified date is allowed to do so provided the period does not fall below five years. This enables farmers to pay off their loans earlier if they succeed in getting good harvests. Another great advantage of this option is that if the loan was incurred at a time when the rates of interest were higher, and subsequently the rates of interest fall, the

[1] Minutes of Federal Farm Loan Board, June, 1917, page 20B.

farmer can take advantage of low rates of interest by paying off his old debt.

**Repayment of Loan**

The loans are repayable by half-yearly instalments. The provision of amortization is made on all farm loans by which farmers pay a small percentage of capital along with their interest in every half-yearly instalment. The amount of half yearly instalment depends on the period of the loan. The shorter the period of the loan the bigger the instalment, and *vice versa.*

With every instalment the amount of principal is reduced, and consequently the amount of interest becomes lower. Each succeeding instalment indicates that the amount paid for interest is decreasing, and the amount paid for principal is increasing. The borrowers have the option to pay their instalments either annually or semi-annually. But they must be paid promptly on the date on which they fall due.

**Raising of Capital for Loans**

The subscribed capital of the federal land banks is too small to make any considerable number of loans. In order to increase the power of federal land banks to make further loans, Congress provided that the banks should be allowed to issue bonds based on the collective security of the mortgages in their possession. European experience showed that bonds secured on first mortgages of land, conservatively valued, issued under the supervision of the Government, form an ideal investment because of their great stability in value, and convertibility into cash at moderate notice.

Such bonds are very common in Europe, and are considered a first-rate investment. In Denmark, between the years 1905–1913, the mortgage bond was considered a better security even than Government bonds. The interest rate on Government bonds was 4.025, and the mortgage bond was 4.004 per cent.[1]

The Farm Loan Act authorized the federal land banks to

[1] Cohen, Joseph. *The Mortgage Bank,* page 73.

issue bonds up to twenty times their capital and surplus. The bonds are issued against the mortgages held by land banks. These mortgages are deposited with the Registrar as a collective security for the bonds issued. Each district bank has a registrar appointed by the Board. The registrar also supervises the application thereto of all payments of principal from borrowers. All payments received by the land banks in respect of principal and interest constitute a trust fund which is supervised by the registrar.

### Issue of Farm Loan Bonds

When the farm loan board is satisfied after its investigations it grants its authority to the federal land bank to make an issue of bonds. These bonds are prepared by the United States Treasury in denominations of $25, $50, $100, $500, and $1000, and run from a minimum period of five to a maximum of forty years. The land banks have authority to pay and retire their bonds after a period of five years at par value.

### Rate of Interest

The maximum rate of interest allowed by the Act on such bonds is 5 per cent. per annum. These bonds are free of income tax and trustees are allowed to invest their funds in them. The federal reserve banks and any members of the federal reserve system are allowed to buy and sell these bonds.

### Security Underlying the Farm Loan Bonds

Efforts have been made to make the farm loan bonds safe as far as possible through the following provisions in the Act—

1. Carefully supervised first mortgages on farm lands, worth at time of making at least double the loan.

2. The capital, reserve, and earnings of the national farm loan associations endorsing the loans.

3. The liability of the members of the endorsing associations is double the amount of stock held by them.[1]

[1] Reduced to the amount of subscribed capital by the F.C.A. Act of 1933.

4. The capital, reserve, and earnings of the land banks which issued them, and the capital, reserve, and earnings of the remaining eleven banks.

Through these bonds the farm loan board has succeeded in standardizing the farmer's security. The individual mortgage was too technical a paper for the average investor to understand, and the difficulties faced in marketing that paper were a serious obstacle in financing farm loans. Now through the instrumentality of the board, the individual farmer in the most remote area has been linked up with the financial centres of the world. These bonds have now found markets even beyond the boundaries of the United States. There is no longer the risk of deterioration of the individual security through the adversities of nature as the bonds are issued on collective securities which are spread throughout the states.

Should one of the mortgagors experience seasonal or other difficulties, his troubles are not likely to be shared by other mortgagors in other areas.

### Issuing of Bonds in Anticipation of Loans

In order to insure the regular flow of funds and to enable the banks to issue bonds when the market was most favourable, the Act allowed the banks to sell large blocks of bonds in anticipation of loan needs rather than to wait until the loans were made. "This expedient has not only enabled the land banks to supply farm loan bonds as called for, but made available to land banks at call, large amount of funds for loaning purposes."[1]

### The Joint-stock Land Banks

We have seen from the brief discussion of different bills that were introduced in the Houses of Congress that there were conflicting interests to be reconciled, and as a measure of compromise the present law was passed. In the previous pages we have discussed these provisions which related to co-operative credit and state help. Now we shall proceed

[1] Willis, P. H. *Op. cit.*, page 265.

to discuss those provisions which were made to reconcile private interests.

At the time of passing the Federal Farm Loan Bill there was a strong block in Congress which was a champion of individualism and was opposed to Government help and co-operation. What they wanted was private banks pure and simple to provide long-term credit. As a compromise the Act provided for two distinct kinds of institutions—

1. Co-operative.
2. Individualist.

The co-operative institutions were the federal land banks which advanced loans only through the co-operative organizations of the farmers—the national farm loan associations.

The individualist institutions were the joint-stock land banks. The joint-stock land banks may be formed by any ten persons who may obtain a charter from the federal farm loan board. The joint-stock land banks are private institutions established to supplement the activities of the federal land banks and to earn profits for their shareholders. Any joint-stock land bank, before it is permitted to commence business must have a subscribed capital of at least $25,000, half of which must have been paid up. The remaining half may be payable at call. The stock holders are allowed to elect a board of not less than five directors from amongst themselves to carry on the business of the bank.

With the following exceptions, the joint-stock land banks have the same powers and are subject to the same restrictions as the federal land banks—[1]

(*a*) The territory within which a joint stock bank can operate is limited to the state in which it has its head office and one other contiguous state.

(*b*) There is no limitation (except city loans) of the purpose for which loans may be granted, nor of the amount of loans which may be granted to one individual, though it would appear that in practice the farm loan board exercises an indirect control through its approval or rejection of the security on which bond issues are based.

(*c*) A borrower from a joint-stock land bank is not

[1] See Willis. *Op. cit.*, page 324.

required to purchase stock in the bank, as he is required to do in the case of federal land banks.

(*d*) The borrower may lease his farm, whereas the borrower from the federal land bank must cultivate his own farm either with his own or hired labour.

(*e*) The maximum amount to which they can issue bonds is fifteen times their capital and surplus instead of twenty times their capital and surplus as in the case of the federal land banks.

The following are the common points between the federal and joint-stock land banks—

(*a*) The provision of amortization.

(*b*) The maximum amount of loan is 50 per cent. of the value of land, and 20 per cent. of the value of improvements.

(*c*) The exemption of the bonds from taxation.

### Working of the Federal Farm Loan System

Having studied the main provisions of the Federal Farm Loan Act, we are now in a position to study the working of this Act. The Act was approved by the President in July, 1916, and the first charter to a federal land bank was granted in March, 1917. Before we pass our final verdict on the system we have to take into view the abnormal circumstances under which it has been working since its operation. This period has been financially the most difficult period in the history of agriculture. The system came into operation during the period when the United States had entered the Great War, and the financial organization of the whole world was undergoing great strain. It was still a toddling baby when it had to face the post-War dislocation, the temporary post-War boom, and the depression.

These circumstances alone would have been trying for any old-established institution. But in addition to these, the very existence of the system was threatened when the constitutionality of the Act was being challenged. In August, 1919, a suit in the form of an equity was brought

up in the United States District Court of the western district of Missouri.[1]

This Court maintained the validity of the Act. But the mischief did not end here. An appeal was immediately taken to the Supreme Court of the United States. The Court took a very long time to decide the case. The decision was declared on 25th February, 1921, upholding the constitutionality of the federal farm loan system in its entirety. Thus, during the period when farmers were most in need of loans, the system was brought almost to a standstill while this litigation was in progress.

Investors were not prepared to take any risks until they were certain about the fate of the system. The board, realizing the difficulties, decided not to issue any bonds. The pressing claims of the borrowers were met to some extent through the proceeds of sales of bonds to the Treasury. The Secretary of the Treasury purchased bonds to the extent of $175,000,000. During these difficult early years of its operation opinions about the value of the system were very conflicting. Its advocates were of the opinion that it had great latent faculties of development which, with favourable times, would bear fruit, and that there were already signs to show its usefulness. Its opponents declared that the system was doomed to failure. Taking into view all the circumstances, one is compelled to admit that in spite of its limitations the system has proved to be a great asset to the agricultural industry.

**Benefits of the Federal Farm Loan System**

The preamble of the Act declared that the primary object of the Act was to "provide capital for agricultural development, to create a standard form of investment based upon mortgage, and to equalize the rates of interest." In judging the benefits of the Act we shall see how the Act has succeeded in providing funds, standardizing farm securites, and equalizing the rates of interest.

[1] See Wiprud, A. C., *The Federal Farm Loan System in Operation*, Chapter I.

**Improvement in Mortgage Conditions**

The federal farm loan system has brought about a marked and very definite improvement in borrowing money on mortgages. There is nothing more important in farm loans than the length of the period of a loan. Nature is very slow in yielding results, and farm loans, owing to the nature of the agricultural industry, should be made for a period so long that the farmer is able to pay them back from the proceeds which he realizes from the improvements that he makes with borrowed money.

Before this system came into operation farm loans were made for very inadequate periods. We have seen in the first chapter that the duration of mortgage loans seldom exceeded ten years. The average loan was advanced for a period of four to five years. The conditions attached to loans were very burdensome. "In those days borrowing money on mortgage by the farmer was a gamble with financial slavery or bankruptcy with the prospect that the farmer would play a losing game."[1] The system provides a maximum period of forty years up to which loans can be had by the borrowers. In order to suit the convenience of each farmer the length of the loan has been left to the borrowers, provided it does not either exceed the maximum of forty years, or fall below the minimum of five years. The general policy of the Board has been to advance loans up to thirty-three years.

**Loans Made by the Federal Land Banks**

From 1917 to 31st December, 1932, the twelve federal land banks have made 530,291 loans to the amount of $1,723,495,414. During the year 1932 the federal land banks made 7208 loans amounting to $27,569,800. The average rate of interest on mortgage loans of the federal land banks outstanding on 31st December, 1932, was 5.4 per cent.[2]

The amount of loans advanced every year, with few exceptions, has been gradually increasing. In the beginning

[1] Norman, J. B. *Farm Credits in the United States and Canada*, page 100.
[2] Federal Farm Loan Board—Annual Report, 1932, pages 7 and 8.

the applications for loans by far exceeded the capacity of the banks to meet them. In the first year of the operation of the banks the amount of loans applied for was $220,000,000. Of this amount $105,000,000 was approved, but loans up to not quite $30,000,000 were closed.[1] The conditions did not differ much next year. By 30th November, 1918, over $406,000,000 were applied for. This amount was decreased to $204,000,000 by cancellation, rejection and withdrawal, but little over $147,000,000 of loans were made. This situation has been generally improving. The cause of this tremendous number of applications has been explained by the Board as follows: "There was in some quarters a mistaken impression that there was an element of philanthropy or paternalism in the system, that it was designed to give credit to persons unable to get credit elsewhere."[2]

The land banks are becoming an increasing source of mortgage credit. In order fairly to judge the service of these banks to agriculture we shall have to take into consideration the rate of increase in the total volume of farm mortgage credit in the United States, as well as the increase in credit extended by land banks. The importance of these institutions becomes clear when we study the loans made by these institutions and compare them with other money-lending institutions.

Estimates of the total farm mortgage debt in the United States prepared by the Department of Agriculture, show that on 31st December, 1924, the total indebtedness was approximately $9,360,620,000, while on 31st December, 1927, it was $9,468,526,000, an increase of $107,906,000 or 1.2 per cent. Between the same dates, the loans of the federal land banks increased by $222,263,000. It appears from these figures that, while the loans of these banks during this period increased by 24 per cent., the farm mortgage loans of all other institutions which were outside this system declined by 4.2 per cent.[3]

[1] Second Annual Report of the Federal Farm Loan Board, 1918, page 10.
[2] Federal Farm Loan Board—Second Annual Report, 1918, page 10.
[3] Annual Report of the Federal Farm Loan Board, 1929, page 35.

The gradual increase in the lending of federal and joint-stock land banks is shown in the following table—[1]

PER CENT. OF THE TOTAL MORTGAGE LOANS

| Lending Agency. | 1920 | 1925 | 1928 |
|---|---|---|---|
| Federal Land Banks . . . . . | 3·6 | 9·9 | 12·1 |
| Joint-stock Land Banks . . . . | 0·7 | 4·8 | 7·0 |

With the increase in funds at the disposal of the system it is expected that by 1940 the system will be able to supply almost 50 per cent. of the loans. Along with the increase in loans of the land banks there has been a continuous increase up to 1928 in the loans made by insurance companies. Their share increased from 12.4 per cent. in 1920 to 22.9 per cent. in 1928. This increase has been due to the influence of the land banks. The insurance companies under pressure of competition modified their old system of short lending and adopted in some cases the principles of the land banks—provision of amortization and long-period loans. The majority of their loans is still from three to five years, but they offer better facilities as regards the terms of the loans and their subsequent extensions.

**Purpose of the Loans**

The purposes for which money has been borrowed from the federal land banks, as revealed from the data compiled from the applications, show that they vary from time to time. In normally good times, the farmers borrow more for buying land and making necessary improvements. But in bad times a considerable percentage of loans is absorbed in repaying old debts. The figures in the following table show that in 1929, 12.2 per cent. of the money lent was used to pay off other non-mortgage debts, and 14 per cent. was spent on the purchase of land. In 1932, the percentage of lent money spent in repayment of loans other than

[1] "Farm Mortgage Credit," Wickens, David L. Bulletin No. 288, Dept. of Agriculture, U.S.A., page 23.

mortgage loans jumped from 12.2 per cent. (in 1929) to 37.6 per cent., while the share spent on the purchase of land fell from 14.0 per cent. to 4.6 per cent.

PURPOSES OF LOANS [1]

| | 1929 | 1930 | 1931 | 1932 |
|---|---|---|---|---|
| | % | % | % | % |
| 1. Purchase of land | 14·0 | 12·9 | 8·6 | 4·6 |
| 2. Equipment, fertilizers, live-stock and irrigation | 2·8 | 3·2 | 3·3 | 2·4 |
| 3. Building and improvements | 4·2 | 4·3 | 3·3 | 2·2 |
| 4. Payment of mortgage debt | 61·8 | 59·6 | 57·7 | 48·2 |
| 5. Payment of other debts | 12·2 | 15·0 | 22·3 | 37·6 |
| 6. National Farm Loan Association Stock | 5·0 | 5·0 | 5·0 | 5·0 |

**Capital of the Federal Land Banks**

The original capital of each district federal land bank was $750,000, the total capital of the twelve district banks being $9,000,000, which has been increased from time to time. Out of these $9,000,000 the Government subscribed $8,892,130. In the first year of its operation the Farm Loan Associations subscribed about 2 millions. Next year their subscription became about 8 millions, and at the end of 1931 the Farm Loan Associations had subscribed over 64 millions. The Government was left with only a small sum of $209,690 in only two land banks—Springfield (Mass) and Berkeley (Cal.).

In the latter part of the year 1931, it was felt by the Farm Loan Board that, in order to continue their loan operations and to give help to those borrowers who were temporarily unable to meet their obligations owing to the tremendous fall in the value of farm products, the federal land banks must provide them with further accommodation. This was not possible until the capital of the banks was increased to enable them to raise more funds. But, as we have seen, the banks were prohibited from lending money exceeding twenty times their capital and surplus. An amendment was made in the Federal Farm Loan Act on

[1] Comparative tables prepared by the writer from various Annual Reports of the Federal Farm Loan Board.

23rd January, 1932, authorizing the Secretary of the Treasury to subscribe to an additional capital of the federal land banks in the aggregate amount of $125,000,000 in order to enable the federal land banks to increase their lending power.[1]

The Amending Act provided that "it shall be the duty of the Secretary of the Treasury on behalf of the United States, upon the request of the board of directors of any federal land bank made with the approval of the federal farm loan board, to subscribe from time to time for capital stock of such bank in an amount or amounts specified in such approval or approvals, such subscriptions to be subject to call in whole or in part by the board of directors of the said bank upon thirty days' notice with the approval of the federal farm loan board." This stock carries no right to vote. This Act further makes it possible "when in the judgment of the directors' conditions justify it, to extend, in whole or in part, any obligation that may be or become unpaid under the terms of the mortgage, and to accept payment of any such obligation during a fixed period of five years or less from the date of such extension in such amounts as may be agreed upon at the date of making such extension." This Act makes it a condition that out of $125,000,000, $25,000,000 shall be exclusively used for such extensions.

**Increase in the Capital Stock**

The entire authorized amount of $125,000,000 was subscribed and paid by the Government. Thus, at the end of 1932, the total capital stock of the federal land banks stood at $189,047,843. Of this amount the national farm loan associations owned $63,197,032 or 33.4 per cent. of the total stock outstanding, and the United States Government owned $125,046,410 or 66.1 per cent. Hence there was a tremendous increase of the Government share from almost nothing (four-tenths of 1 per cent.) in 1931 to 66.1 per cent. at the end of 1932; so that the share of the farm loan associations has been lowered from over 98 per cent. to little over 33

[1] F.F.L.B. Report, 1932, page 6.

per cent. The increased capital was used in making more loans.

**Distribution of Loans**

The real service which the federal farm loan system has performed for agriculture is not reflected in the total amount of the loans made by the land banks, but in the distribution of such loans according to the geographical divisions of the country. Before the system came into operation the farmers of the southern and western states had more difficulty in raising loans than the farmers of the eastern states. Insurance companies and other agencies were reluctant to invest their funds in the so-called new states. "The distribution of loans made by the federal and joint-stock land banks indicates that these agencies have responded to the demand for credit in areas hitherto not emphasized by the lending mortgage agencies."[1] The following figures compiled by the Department of Agriculture in 1928 show the truth of this assertion.[2]

In 1928, more than one-third of New England's farm mortgage credit was supplied by individuals, and an equal amount by banks. The Middle Atlantic States had two-thirds of their mortgage credit from individuals, and the East North Central States had more than one-third from this source. All three north-eastern divisions had from 16 to 17 per cent. of their loans from federal and joint-stock land banks. The West North Central division drew over 32 per cent. of its long-term credit from insurance companies, 15 per cent. from mortgage companies, more than 25 per cent. from individuals, but only 12 per cent. from the federal and joint-stock land banks. The South Atlantic Division, however, received 38 per cent. of its loans from the land banks; the East South Central division had the largest proportion with 42 per cent. of its total from this source, and 28 per cent. from insurance companies. In the Pacific division, as in New England, the greater

[1] Wickens, D. L. *Op. cit.*, page 27.
[2] For detailed account, see Wickens, D. L., page 27.

part of the loans was made by commercial banks and individuals.[1]

**Farm Loan Associations**

Farm loan associations are the central pivot around which the federal land bank system rotates. Loans are made by the twelve federal land banks through these associations. They are based on co-operative principles. The authors of the Farm Loan Act considered these associations to be the most happy medium between extreme individualism on one side, and the absolute control and management by the Government on the other side. The idea underlying these associations is that borrowers should continue to finance themselves and should ultimately control the entire farm loan system.

This idea was advocated with very high hopes which unfortunately have not been realized to the extent that some people wished. We shall discuss their merits and demerits when we estimate the system as a whole. Here we shall only describe their growth and working.

During the first year of operation, 1839 national farm loan associations were organized. The following year the number of these associations increased tremendously; at the end of the second year it stood at 3439, and at the end of the third year the figure stood at 4018.[2] This rapid growth of the associations was more than what was expected.

[1] The area of the United States has been geographically divided into nine regions—New England, Middle Atlantic, East North Central, West North Central, South Atlantic, East South Central, West South Central, Mountain, Pacific. These nine divisions cover the forty-eight States of the Union as follows—

*New England:* Main, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.

*Middle Atlantic:* New York, New Jersey, Pennsylvania.

*East North Central:* Ohio, Indiana, Illinois, Michigan, Wisconsin.

*West North Central:* Minnesota, Iowa, Missouri, North Dakota, Nebraska, Kansas.

*South Atlantic:* Delaware, Maryland, Virginia, W. Virginia, N. Carolina, S. Carolina, Georgia, Florida.

*East South Central:* Kentucky, Tennessee, Alabama, Mississippi.

*West South Central.* Arkansas, Louisana, Oklahoma, Texas.

*Mountain:* Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada.

*Pacific:* Washington, Oregon, California.

[2] Compiled from various Annual Reports of F.F.L.B.

In certain localities the forming of national farm loan associations was undertaken by individuals whose object was to secure "easy money." They had no intention of building up permanent organizations in order that their benefits could be extended to their neighbours in the future. The size of each association was small, and the associations showed a tendency to unnecessary multiplicity. The policy of the Board was to consolidate them.

During the first three years 128 charters were cancelled by amalgamation and also owing to the weakness of many associations. The tendency since then has been not to start new associations, but to consolidate the position of existing ones, and to increase their membership.

At the close of 1932, there were 4649 farm loan associations —an increase of only 631 in thirteen years. But the average association has much more capital and membership than thirteen years ago. Many associations in this class had little capital above the minimum required, and their membership was as low as twenty persons.

The federal farm loan board's annual report for the year 1932 gives the following classification of the associations on the basis of gross amount of total loans outstanding—

| Gross Amount of Loans Outstanding | Number of Associations |
|---|---|
| Less than $50,000 | 613 |
| $50,000 to $100,000 | 853 |
| $100,000 to $150,000 | 655 |
| $150,000 to $250,000 | 863 |
| $250,000 to $500,000 | 987 |
| $500,000 to $750,000 | 342 |
| $750,000 to $1,000,000 | 161 |
| $1,000,000 to $2,000,000 | 156 |
| $2,000,000 to $3,000,000 | 14 |
| $3,000,000 to $4,000,000 | 3 |
| $4,000,000 to $5,000,000 | 1 |
| $5,000,000 and over | 1 |
| | 4649 |

**Reserves of Association**

According to the requirements of the Act, the associations have to keep certain reserves. At the close of 1932, the reserves amounted to approximately $2,311,000, of which about $2,232,000 was invested in federal land bank bonds.[1]

**Standardization of Farmers' Security**

The corporative basis of finance has brought industry from the handicraft stage where an individual craftsman, like the farmer of to-day, was struggling hard for many centuries to produce by himself a few things, either by borrowing on his personal security or by denying himself many conveniences of life and saving a little capital, to a stage of big joint-stock corporations with enormous financial resources. We find to-day that industry no longer has to look to these antiquarian sources of credit. The basis of industrial finance is the principle of joint-stock and limited liability. The organization of industry from its primitive stage to the present huge trusts and cartels was made possible by the modern principle of corporative finance.

The security behind the shares or bonds of any industry are the buildings and equipment and the products of the industry. It is a feature common to both industry and agriculture that for purposes of buildings and permanent equipment credit is required for a comparatively long period of years. The question why agriculture should not be financed on the same principles as industry was a subject of agitation from the early days of this century in the United States. It is true that agriculture in contrast to industry even to-day is largely individualistic, and no shares can be issued to any appreciable extent to raise initial capital for it. But there is no reason why the farm mortgage bond should not prove, if not better than, at least equal to the industrial bond. It was with this idea in view that the farm loan system provided that the land banks should finance agriculture by issuing bonds. The specialized machinery of the federal land banks enables them to investigate the mortgage offered, and to value the property

[1] F.F.L.B. Report, 1932, page 20.

offered as security. The provision of amortization insures the redemption of bonds and enables a land bank to market them without any serious difficulty. It is in a position to know on which property it can safely lend. It can afford a staff of efficient land appraisers to value the farm security which small institutions are not in a position to employ. Owing to its large scale operations its loans are distributed all over the United States, and there is a smaller element of risk. The entire system is strong enough to stand the ordinary risks and financial losses which mean sometimes bankruptcy and annihilation to small institutions.

Private lenders were in many cases almost ruined even through small losses. The federal land banks, through their collection of well-selected mortgages in different parts of the country have been able to issue bonds on their security which give a safe investment to investors and a convenient and cheaper means of borrowing to the farmer. The system has succeeded very well in changing the psychological outlook of the farmer in respect to mortgages.

Most farmers previously regarded a mortgage as an encumbrance and a social degradation. That attitude, in spite of some "liberal people's" condemnation, was justified from the farmer's point of view, at least socially, if not economically. When he mortgaged his farm to his neighbour every one knew that such a transaction had taken place. As the lender has personal knowledge of the borrower, their contact instead of being impersonal, remained personal. The security underlying the mortgage was more often the mortgagor himself than his farm. At times of collection more personal pressure was brought to bear and in extensions it is the personal favour that plays the most important part. In such a position the lender occupies a very important position in the community, and the borrower has a feeling of inferiority which permeates the morale of borrowing. The farm loan system, while retaining the co-operative principle, has eliminated the idea of social and personal degradation and has taught the farmer the economic value of the loans.

The object of the whole system is to bring home this idea

of economic borrowing to farmers. Under it farmers finance themselves by offering their obligations to the public through the land bank bonds which, like the industrial bonds, are based on first-class security. It has been European experience that land bonds are more stable as a means of investment than industrial bonds. The total outstanding bonds of the federal land banks on 31st December, 1932, stood at $1,170,843,705. The average rate of interest borne by bonds of federal land banks outstanding on 31st December, 1932, was 4.541 per cent.[1]

**Equalization of Interest Rates**

We have seen in the first chapter that before this system came into operation there were prevalent different rates of interest in different parts of the United States. In addition to the varying interest rates there were also varying commission charges which enhanced the cost of loans quite considerably. The Act fixed the maximum rate of interest at 6 per cent. This itself was a service of unique importance to those states in which the rates of interest, even on first-class securities, were seldom below 10 per cent. The Act has prohibited all unnecessary commission charges, which is also a considerable saving to farmers.

The Act in its very preamble aimed "to equalize rates of interests on farm loans," and, without dispute, it has succeeded most in this respect. It has been of great benefit to many farmers. As the result of the operation of this clause the interest rates on farm loans have become more uniform, irrespective of the source of credit. Private agencies under the pressure of competition have been compelled to set their houses in order, and to lower interest rates. Farmers in the south and west, who had previously paid exorbitant rates of interest, and who were told that their security was inferior, have been the greatest gainers by the farm loan system. "The desire for the equalization of interest has been fairly well met in those parts of the country in which they were the highest.[2]

[1] F.F.L.B. Report, 1932, page 11.
[2] Morman, J. B. *Farm Credit in U.S.A. and Canada*, page 104.

**Joint-stock Land Banks**

In order to satisfy the advocates of individual liberty and private interests, provision was made in the Act to establish joint-stock land banks to supply credit to those farmers who did not desire to join any co-operative organization. Another idea in allowing such banks to come into existence, side by side with federal land banks, was that they should cater for the needs of big farmers, especially the cattle raisers, who required larger loans than the land banks, according to the limitation imposed on them, were able to supply.

In the beginning great hopes were cherished about them. It was expected that they would be able to supply the credit needs of the farmers to quite a considerable extent, and to be the chief source of farm finance as they would be free from "red tape." It is unfortunate that these hopes have not been realized. Public confidence in the bonds of such banks has been severely shaken, owing to the failure of many of them to meet their obligations. From 1916 to December, 1927, eighty-three charters were granted to joint-stock land banks. On 31st December, 1926, fifty were in actual operation. Of the remainder, nineteen had been merged with other joint-stock land banks, which took over their assets and liabilities. Four had been taken over by federal land banks, six had liquidated voluntarily, one was in process of voluntary liquidation, and three were in the hands of receivers appointed by the Farm Loan Board. At the close of 1932 there were forty-six joint-stock land banks in operation and one in voluntary liquidation.[1]

**Capital**

The total outstanding capital stock of the forty-seven joint-stock land banks on 31st, December 1932, was $35,073,660. On the same date forty joint-stock land banks reported combined surplus reserves, as required by the Act, and undivided profits, totalling $13,071,580, while seven reported deficits aggregating $1,842,795. In

[1] F.F.L.B. Report, 1932, page 23.

addition to these statutory reserves, the joint-stock land banks had miscellaneous reserves amounting to $12,525,821.[1]

### Loans

These banks during the year 1932 made 551 loans totalling $2,181,073. The loans of these banks have been declining since 1927. The decline from 31st December, 1927, to 31st December, 1932, has been 31.2 per cent. The decline in the amount of loans has been due in large measure to a reduction in the volume of new loans closed, and to the liquidation of loans through payments and foreclosures, and the sale of loans of joint-stock land banks in receiverships.[2]

### Interest Rate

The rate of interest charged by those banks has varied from 5½ per cent. to 6 per cent.

### Purposes of Loans of Joint-stock Land Banks

Data compiled by these banks from the borrowers' applications reveal the following purposes for which money was borrowed in 1932.[2]

| | Per Cent. |
|---|---|
| To pay mortgage and other liens | 48·9 |
| To pay other debts | 26·4 |
| To purchase land | 18·4 |
| For building improvements | 3·0 |
| For equipment, fertilizers and irrigation | 3·3 |

### Condition of the Joint-stock Land Banks

The condition of the joint-stock land banks, as revealed by the federal farm loan board's annual report for the year ending 31st December, 1932, is not very satisfactory. There was a considerable increase in delinquencies, foreclosures, and real estate holdings. All this made it very difficult for some of these banks to meet their obligations. Most of these banks were assisted by the farm loan board in meeting these difficulties and in maintaining their position. The farm loan registrars were instructed by the Board to purchase bonds of these banks at a substantial discount,

[1] F.F.L.B. Report, 1932, page 23.
[2] F.F.L.B. Report, 1932, page 24.

and then to retire them as the Act authorized. Several joint-stock land banks have been assisted by funds obtained through loans from the Reconstruction Finance Corporation.[1] At the close of 1932, the Reconstruction Finance Corporation reported that twenty-two loans, aggregating $6,297,000, had been authorized to fourteen stock-joint land banks.

## CRITICAL ESTIMATE OF THE FEDERAL FARM LOAN SYSTEM

### Defects in the Federal Land Banks

With due regard to the critical period through which the federal land banks have worked, one's final verdict is that they have not come up to expectations. In 1932, they provided only 12 per cent. of the total farm mortgage credit. The great defect in these banks is that they are rigid and inflexible, and cannot keep pace with the credit requirements of the farmers until, at every successive period, the capital of the banks is increased, and it is the "principal weakness that the federal farm loan system is not handling as large a proportion as it should. In particular, it was not handling anywhere near enough of them (loans) when the agricultural depression came in 1921. It had not expanded its business fast enough."[2]

The same remarks were true until the establishment of the Farm Credit Administration in May, 1933. The banks failed to supply credit even when the farmers were prepared to satisfy them in regard to the security. From 1929 to 1932 their advances, instead of increasing, have been decreasing. In 1929, the outstanding unmatured principal was $197,949,727. This decreased to $163,475,652 in 1931, and to $116,691,663 in 1932.[3] During years of agricultural prosperity there has been a steady rise in the amount of loans advanced by these banks, but with the first signs of adversity in 1929, they have contracted their loans. One of the chief complaints of the farmers' organizations against

[1] The activities of this Corporation are described in a later chapter.

[2] Black, J. D. *Agricultural Reform in the United States*, 1929. See page 456.

[3] F.F.L.B. Report, 1932, page 8.

the commercial banks and insurance companies was that they were only "fair weather" friends. They met the credit need of farmers fairly well during the period of rising prices, but when times were bad, and the farmers were most in need of credit, these institutions failed to extend credit, and instead insisted on repayments. The whole trend of discussion in Congress during the period when this Bill was being debated shows that it was expected that these new banks would not be only "fair weather" friends, but would be able to extend credit to farmers when ordinary credit resources were denied to them.

From these remarks it should not be understood that these banks should become relief institutions. Far from it. That would be a suicidal policy. But it was expected that the farm loan board should follow such a policy for valuing the land that it would exercise a stabilizing influence on the prices of land, and it should then be possible to lend on those values with a considerable amount of safety. It is a serious charge against the Board that it has failed to follow such a policy and its system of valuing land has been unsatisfactory.

Proper valuation of land is absolutely necessary for the success of any institution which provides long-term credit. "Absolutely fundamental," remarks Prof. Black, "to the success of any institution which has for its sole function the loaning of money on farm land is as thorough an understanding as possible of the factors determining the value of land at any given time in any given area. Such an understanding has not been available, principally because the necessary data have not been accumulated or analysed. The inspectors who make the examination of the land and recommend the loans are not primarily responsible for this weakness of the system, although some of them make a great many poor recommendations. The real weakness has been that those in charge of the appraisal work have not understood this problem. Scarcely a year ago the federal farm loan system set up in a small way the research department for collecting and analysing land value data that was needed twelve years ago."[1] The result has been that

[1] Black. *Op. cit.*, page 457.

there has been a tremendous number of foreclosures, which have resulted in consequent losses. The banks are not in a position to operate the acquired farms on a basis which yields satisfactory returns above necessary expenditure.

During the year 1932, the twelve land banks acquired 5092 whole units of farms worth $12,468,240, as compared with 3463 whole units of farms worth $10,040,247 in 1931. Sale prices in the aggregate represented approximately 72.2 per cent. of the total investment as compared with 80.1 per cent. in 1931. The number of foreclosed farms in the possession of federal land banks has been increasing, and there is a likelihood of their becoming land-owning bodies instead of land banks. On 31st December, 1932, the twelve federal land banks owned outright 13,334 farms, which were carried at $44,753,714. The banks held also 5169 farms subject to redemption, the net carrying value of which was $24,945,526.[1]

**Low Margin of Lending**

With a proper method of determining land values there is no reason why there should be any danger in lending even higher than half the value of the property. Farmers have often been compelled to borrow money on a second mortgage, for which there is no provision in the system. "In many cases the difficulties of farmer-borrowers have been increased by the existence of heavy junior liens and chattel mortgages. In many cases creditors other than those holding the first mortgages on the land have taken over the borrowers' equipment and live-stock, making it impossible for them to continue their farming operations, and forcing many abandonments and foreclosures. The land banks, therefore, have found it necessary in some cases to obtain crop or chattel mortgages in order to make it possible for borrowers to operate their farms, and have an opportunity to work out of their difficulties. Where conditions justified such action, the federal land banks have waived crop mortgages in order to enable the borrowers to obtain credit to carry on their farming operations."[2]

[1] F.F.L.B. Report, 1932, page 16.
[2] F.F.L.B. Report, 1932, page 14.

There seems to be no reason why the federal land banks should not provide credit on a second mortgage as a regular policy. If the land is really scientifically valued, 50 per cent. is an unnecessarily wide margin to cover all the necessary risks. There is no reason why the federal land banks should not be able to provide credit up to two-thirds of the value. If the banks stick to their policy of 50 per cent. then it becomes absolutely necessary that they should make some provision for supplying credit on second mortgages. This can be done by opening a subsidiary department.

But in order to avoid losses and foreclosures, it is absolutely necessary that the present speculative system of land values should be done away with, and valuation should be based on the average price of land and its yield for the last thirty to forty years.

Some criticism has been directed against the farm loan board, and it has been alleged that it has been influenced by political considerations. How far this is true is very hard to determine, but it can be safely said that the Board is a top-heavy body, and that there is no justification for such a large board of well-paid members. If the element of co-operation has been stressed in the farm loan associations, there is no reason why the farm loan board itself should be devoid of such influence altogether.[1]

**Tax Exemption of Land Banks' Bonds**

There has been a genuine difference of opinion about the value of tax exemption of the land bank bonds. This provision may have some justification for the federal land banks, but there seems little justification for exemption of joint-stock land bank bonds. One reason for the exemption of federal land bank bonds from taxation was to enable persons of small means to buy these bonds. But exemption is a form of subsidy, and if many purchasers of bonds are rich, then it is unnecessary to subsidize them at a great loss to the revenues. The provision of tax exemption is of greatest benefit to persons receiving very high incomes

[1] Some of these defects have been remedied by the Farm Credit Administration, which we shall discuss in a later chapter.

as they are the chief investors in these bonds. If there had been no tax exempt bonds the benefit would have gone to the public treasury in the form of greater tax income and would have benefited the general taxpayer.

Tax exemption benefits the rich at the cost of ordinary taxpayers. These bonds are purchased in great quantities by persons of very large means to avoid, especially, the surtax. The average investors, especially farmers, in spite of their occasional gambles, are loath to invest their money in any sort of bonds, as they are not very well acquainted with the value of industrial and other securities. They would be more willing to invest if the absolute safety of their funds were assured. Nothing could have been more convincing to the farmers and other small investors than the guarantee of the Federal Government. If the interest and principal of these bonds had been guaranteed by the Federal Government, that would have served better to secure the confidence of small investors than the provision of tax exemption. If bonds are issued against proper security carefully examined, there is no reason why the Federal Government should suffer any loss or be called upon to make any payments. This would have meant additional income without any of the loss, which the Federal Government is experiencing through tax exemption. The Government guarantee is required more for psychological than for any other reasons.

But the provision of tax exemption is defended on the ground that the majority of Government bonds are exempt from taxation. In the presence of such tax-exempt bonds it would not have been possible for the land bank bonds to attract investors except at interest rates higher than the tax exempt bonds. There is a good deal of truth in that.

**Weakness of the Farm Loan Associations**

The most distinguishing feature of the Farm Loan Act is the creation of farmers' co-operative associations in the form of farm loan associations which should ultimately control the entire system in the interests of the borrowers. The enthusiasm of Congress in creating co-operative

associations was based on the recommendations of the United States Commission which was very much impressed with the success of the German "Landschaft."' It is very unfortunate that the system in practice is anything but co-operative. The co-operative principle which has been introduced from above has not made any headway.

As a matter of fact, the very spirit of co-operation is lacking in the farm loan associations. The law provides that none but the borrowers can become members of the association. This clause deprives the associations of any genuine co-operative element. It attracts only those people who are in need of money and have to become members of the associations in order to be eligible to borrow from the land bank. The enforced subscription to the association's stock to the extent of 5 per cent. of their borrowed money is very seriously objected to by the borrowing farmers. They become members and pay for their membership not because they want to, but because they have to. They automatically cease to be members when they have paid off their loans. This means that there is no permanent bond between the members and the associations.

Naturally, the members do not take any interest in their associations, and no co-operative spirit is developed as the members view the whole thing from their personal point of view. In this system there is no place for those persons who are interested in the farmers' welfare, and perhaps are themselves farmers but, owing to their better circumstances, are not in need of borrowing money from the federal land banks. This deprives the association of some most valuable members. As regards the eventual control of the entire system by the borrowers, this is becoming more and more impossible in the face of the large share capital of the Government and the interest of the bondholders. The successive annual reports of the federal farm loan board suggest one difficulty after another in realizing that dream. The large majority of the farmers themselves do not desire this control. What they want is abundant credit at cheap rates. The cost of credit to the farmers under this system becomes higher when money is borrowed through the associations

whose expenses, however small, the farmer has to pay, and he loses additional amounts through his subscription to the association stock. It is often said by enthusiastic advocates of the system that the farmers do not suffer any loss because the federal land banks pay dividends to the association on their stock, and the associations pay the farmers. This sounds perfect in theory, but actual experience has a different story to tell. In the first place, many banks sometimes have not declared any dividends at all, and this has meant a direct loss or higher cost of credit to the farmers. When dividends have been declared they have not been received by the farmers in their entirety. A major proportion of them has been swallowed up by the associations in the form of reserves, etc., from which a farmer does not derive any financial advantage. As soon as he has paid his loan, he ceases to be a member. To what extent the farmers have been deprived of these dividends in their associations was made clear by the Farm Loan Board in its report for the year 1922, and the following figures given prove the truth of these contentions.

The dividends distributed by the national farm loan associations have averaged only 46 per cent. of the dividends distributed by the federal land banks. By 1922, the total amount distributed by the land banks to 3645 associations was over $1,826,000, of which the associations redistributed to their members only $937,000. The double liability of the shares has been also objected to in some quarters. Many farmers' organizations have protested against this so-called co-operative system, and in its fifth report the federal farm loan board itself recommended direct borrowings, and advanced the following arguments in support of their recommendations—

1. That most farmers, after having procured their loans, take little or no interest in the affairs of the association, because they lack the spirit of co-operation;

2. That some associations cease to function after the organizers have obtained their loans, thereby failing to serve their communities in providing farm mortgage loans.

For these reasons the board expressed their conviction that the federal land banks should be authorized by law "to make loans direct to the borrowers in the same manner as joint-stock land banks, except that a borrower should be required to take stock in the federal land bank equal to 5 per cent. of the amount of his loan." One fails to understand why a borrower should be required to subscribe the land bank stock.

This recommendation was not given effect to mainly for political reasons. If the system of direct lending had been introduced, there would have been no necessity for the joint-stock land banks.

**Failure of the Joint-stock Land Banks**

The joint-stock land banks, also, have not come up to expectations, and the failure of some important joint-stock land banks in recent years has shaken confidence in them. They badly needed re-organization. The Federal Farm Mortgage Act of 1933 prohibited these banks from making any new loans and made provision for their liquidation.

# CHAPTER III

## THE WAR FINANCE CORPORATION

THE War Finance Corporation was originally established on 15th, April, 1918, in order to aid certain industries necessary for the prosecution of the War. The Act was not passed for aiding agriculture. The Capital Stock of the Corporation was fixed at $500,000,000 which was subscribed by the Treasury.

The original Act was amended on 3rd March, 1919, to authorize the Corporation to make loans to assist the exportation of United States products, because it was feared that with the close of the War trade might shrink if some extra credit was not extended to foreign buyers. It was in this connexion that credit was given to the exporters of agricultural products. By 1920, foreign trade was in a flourishing condition and there was a general expansion of credit. Consequently, the Secretary of the Treasury felt that the time had arrived to stop this emergency credit and accordingly the Corporation ceased to function in May, 1920. Unfortunately the prices of agricultural products began to decline by the middle of 1920. In the early months of 1920 prices had reached the peak. By the end of 1920 the downward trend of prices was so marked that it resulted in a general agitation, and pressure was brought to bear upon Congress to stimulate foreign buying. In the end of January, 1921, the following joint resolution was passed by both Houses—

> That the Secretary of the Treasury and members of the War Finance Corporation are hereby directed to revive the activities of the War Finance Corporation, and that the said Corporation be at once rehabilitated with the view of assisting in the financing of the exportation of agricultural and other products to foreign countries.

In the beginning of the year 1921, prices were still rapidly falling, and with falling prices the credit resources of the farmers were being completely exhausted and the burden of

debt was more severely felt. The credit requirements of farming were constantly being increased owing to the capitalistic system of agriculture which was intensified during the War. When the United States entered the Great War, there was a general slogan that food would win the War. Under the spur of patriotism and of the general increase in the prices of farm products during the War, there was an increasing stimulus to intensive cultivation. Capital was being more liberally spent. The farmer was called upon to spend greater amounts on labour, fertilizers and farm machinery. Mechanization was going on very rapidly and the horse was being replaced by power tractors. Tractors, automobiles, motor trucks, and gasoline engines were coming into more general use.

The money spent on farm machinery and implements increased from $749,775,970 in 1900 to $3,594,772,928 in 1920. There was a general tendency to increase the poultry and live-stock industries which again required more capital.

The farmers during the War had tremendously increased production. Even sub-marginal lands were brought into cultivation, and it was made possible by the upward trend in prices. The period of rising prices was so profitable to the farmers that they forgot that it was an emergency period, and they were led to believe that this state of affairs would continue for ever. They paid in many cases fabulous prices for their land and increased their standard of living all round. With the advent of depression they found themselves in a very embarrassed state. They found out to their dismay that the ordinary sources of credit were being tightened all round, and they were called on to meet increasing liabilities with diminished sources of income. Even if provision had been made beforehand to meet this crisis it would not have been easily weathered.

This gloomy situation has been graphically described by the Managing Director of the War Finance Corporation in the following words—

> There was a state of demoralization everywhere among all classes of agricultural producers. Farmers and stock-men generally were in a desperate plight, breeding herds were being sacrificed on a

wholesale scale; immense stock was being sent to the block; all cotton and corn and other agricultural commodities commanded prices that were discouragingly low, and in many cases materially below the cost of production. Forced liquidation and hasty selling impaired the farmers' buying power, and this in turn brought about a reduced demand for the products of industry. Bank deposits were being withdrawn and reserves depleted, loans could not be collected, and the stability of our whole agricultural and banking structure was being impaired.[1]

With the revival of the War Finance Corporation, the directors took immediate steps to extend to the agricultural exporters as much help as was possible. Cotton being the chief agricultural export, that product received the first attention. The Corporation offered to make loans to exporters of cotton to enable them to store it in warehouses until better times came. In July, 1921, it agreed to advance 5 million dollars to the Stample Cotton Co-operative Association to enable it to hold 100,000 bales of cotton. It made similar advances of various amounts to many other associations elsewhere, especially in the South. Its activities were not confined to cotton alone. It included a series of various other commodities, e.g. wheat, tobacco, condensed milk, dried fruits and meat products. It also made limited advances for the export of manufactured products. From January, 1921, to 3rd November, 1923, it made a total advance of $38,653,537. Of this amount 7.5 millions were loaned direct to exporters, 2.6 millions to co-operative marketing associations, and 28.5 millions to banking and financing institutions.[2]

The Corporation had approved over 58 millions of loans for this purpose, of which only 38 millions was called for. These figures indicate that there was not so great a need for export credit as was generally believed.

No additional loans were made for this purpose after 3rd November, 1923. The entire amount has been repaid with the exception of $345.

Export credit could not help the farmer to any considerable extent, as the problem was not one of credit but of falling

[1] Annual Report of the War Finance Corporation, 1923, page 2.
[2] War Finance Corporation, Annual Report, 1923, page 16.

prices. The farmers made a mistake in confusing their price problem with their credit problem. At this period, world-wide deflation was taking place, and no amount of extension of credit could help to raise the price level without the co-operation of other countries. But the farmers' representatives and their organizations did not appreciate this situation to its full extent. They thought that the fall in prices was due to the stringency of credit. They believed that if they had secured a sufficient amount of credit at reasonable rates of interest, and had not been compelled by the banks and other credit institutions to liquidate their loans at a period of falling prices, they would not have been so badly off. Their belief was justified to some extent because they could have weathered the crisis better, and the fall in prices would have been probably less pronounced if they had not glutted the depressed markets with their products, which they were compelled to do in order to meet their obligations. Further, if they had secured their loans for reasonable periods they would have been better off at this critical period. The gap between short-term and long-term credit was seriously felt. The discount loans made by the federal reserve banks before 1923, were only for six months, which was a very inadequate period, and the loans made by the federal farm loan system were for periods not less than five years. It was urged that this wide gulf should be bridged by a system of intermediate credit to provide loans from six months to three years. It was not possible to inaugurate any new system immediately without making a thorough inquiry, and the desperate condition of agriculture required immediate attention and quick action.

Increasing political pressure was brought to bear on Congress, and in response to this it authorized the War Finance Corporation to make emergency relief loans and also to set up a Commission to seek some permanent remedy. This Commission recommended the inauguration of the intermediate credit system within the federal farm loan system. We shall describe this system in the next chapter. Here we shall study the relief operations of the War Finance Corporation and its service to agriculture.

**General Agricultural Relief**

Of all the branches of agriculture the cattle industry was in the worst plight. During the War this industry had increased production tremendously. Owing to rising prices, credit was very liberally extended to it. When prices suddenly took a downward trend the cattle loan companies and many banks were generally pressed for funds. They pressed their borrowers for repayments and the result was disastrous both to the cattle industry and to the cattle loan companies and banks. This industry was very badly in need of help. On 24th August, 1921, Congress passed an emergency agricultural credit measure by amending the War Finance Corporation Act. This amendment authorized the War Finance Corporation to make advances until 1st July, 1923, to "any Bank or Trust Company in the United States or to co-operative associations of producers which may have made advances for agricultural purposes, including the breeding, raising, fattening, and marketing of live-stock, or may have discounted or rediscounted notes, drafts, bills of exchange, or other negotiable instruments issued for such purposes." The loans were to be made in the first instance for a period of one year only, but were renewable up to a maximum period of three years. The Corporation was authorized to make such loans up to a maximum of one billion dollars.

The Corporation took immediate steps to put this new provision into operation, and in a short time set up thirty-three loan agencies to facilitate its lending operations. It should be noted here that the Act did not make any provision for making direct loans to farmers. It would have been a very hazardous task to do this. At this critical period the demand for new loans was not so pronounced as the demand for the extension of previous loans. With this end in view the Corporation extended enough credit to those agencies which were providing credit to the farmers so that they should not press the farmers for repayments. The general procedure was that the farmer, as usual, had to make an application for a loan to the local bank, and if it was not possible for the bank to accommodate him, it could secure

the necessary funds from the Corporation on the security of the farmer's note. The country bankers were given great latitude in this respect in order to facilitate them in providing accommodation to needy farmers, and they were relieved from the pressure to liquidate. In order that the banks might not exploit needy farmers, the Corporation prohibited the banks from charging a rate of interest higher by more than 2 per cent. than that charged by the Corporation. Due regard was given to the margin on loans, and securities were thoroughly examined by the local agency before being sent to Washington and accepted by the Corporation. The Corporation exercised care in granting loans. Complaints were made by country bankers that the Corporation required more security than was justified by the risks. The greater part of the loans was made by the Corporation during the last two months of 1921, and the first four months of 1922. During this period over 80 per cent. of the loans were made to banks—$169,708,399.

The total advances for agriculture and live-stock purposes made under the Act of 24th August, 1921, amounted to $296,987,962. The maximum was reached in May, 1922. After that greater confidence was felt and signs of revival appeared. By June, 1922, not only did the demand for funds decline, but payment began on a considerable scale. The Corporation ceased to make such further loans on 3rd November, 1923. Of the total advances, 50 per cent. went to banking and financial institutions, 29 per cent. to live-stock loan companies, and 13 per cent. to co-operative marketing associations. By 31st December, 1931, all but $43,255 had been liquidated.[1]

**Some Reflections on the Work of the War Finance Corporation**

In order fully to appreciate the significant part which the War Finance Corporation played during this critical period of depression, we have to go further than the mere figures of its loans. The total loans advanced by the Corporation were small, but they were by no means insignificant.

In time of crisis it is not the exact amount of loan which

[1] Annual Report of the War Finance Corporation, 1931, page 3.

matters, but the psychological impression which the presence of such a lending institution creates. This fully applies to the War Finance Corporation. It helped to create a general spirit of confidence. Its loans were made in the localities in which they were most needed, and there were no other agencies available to meet their requirements. These States were suffering from the worst effects of low prices, and the ordinary channels of credit were practically closed to the farmers. Not only this, but the banks were themselves threatened with disaster. The Corporation provided loans to those banks which had a large number of frozen assets. The latter were unable to borrow from their city correspondents and were compelling the farmers to make repayments. The Corporation, by providing them with funds, relieved the pressure that was put on the farmers, and enabled them not only to put their house in order, but also to borrow from other sources. In the State of Iowa an examination was made of the use to which the funds from the Corporation were put, and it revealed that 60 per cent. of them were used by the country banks to liquidate their indebtedness either to their city correspondents or to the federal reserve banks, and the greater part of the rest was used to extend the period of repayments to the farmers. Cattle loan companies benefited even more from the funds of the Corporation. With these funds it was possible for them to grant extensions which were sorely needed to save the cattle industry from disaster.

The Management of the Corporation was instrumental in reorganizing some cattle loan companies, and in securing the capital needed for starting others. In this way, it brought a considerable amount of funds to finance this industry, in addition to those that it lent from its own resources.

The special feature of the Corporation's work was the financing of co-operative marketing associations. The Corporation rendered them invaluable service by providing them with adequate funds in 1921-22. This was the most critical period in the history of co-operative marketing associations. They were facing extensive difficulties in carrying on their operations owing to lack of funds.

The banks in large financial centres were reluctant to advance any considerable amount of funds on the security of warehouse receipts. "The most valuable financial ally which the co-operatives had in 1921 and 1922 was the War Finance Corporation."[1]

When the banks discovered that the Corporation was granting credit to the co-operative marketing associations, it created confidence in their minds and they also started to extend credit.

"The experience of the War Finance Corporation showed that safe methods of financing the orderly marketing of agricultural products through co-operative associations could be devised. Commodity financing on the basis of goods stored in warehouses had been done quite successfully previous to this by the fruit associations in California. But the New York banks had never accepted very cordially the idea of making large loans to co-operative associations on the basis of commodities stored in warehouses. The War Finance Corporation demonstrated that this could be safely done."[2]

This is a unique service in itself. It is very creditable that the Corporation should have helped the agricultural industry through its most critical period without suffering losses. The cautious and sound policy of the Corporation was severely criticized by some agricultural interests, but the Corporation made it plain that it was no charitable institution. It was an emergency institution started to help the farmers and the banks, which were threatened with financial ruin owing to frozen assets, and it performed its function excellently. It provided an intermediate credit, and its activities at the end of 1923 were taken up by the federal intermediate credit banks, which we shall describe in the next chapter.

[1] Steen, Herman, *Co-operative Marketing*, page 342.
[2] Baird and Benner, *Ten Years of Intermediate Credit*.

# CHAPTER IV

## THE FEDERAL INTERMEDIATE CREDIT SYSTEM

### Agitation for Better Credit Facilities

IN the previous chapter we have briefly described the work of the War Finance Corporation as a temporary body which tried to meet the intermediate credit needs of the farmer during the period of falling prices. We have also seen in the first chapter how the demand for the extension of credit has been intimately linked up with the notion of "cheap currency" and political propaganda. Politics play a predominant part in many phases of American life, and the remedy for every economic or social ill is generally sought in Governmental legislation. "Pass the law" is a general saying in America. So when the depression came the remedy was sought by means of legal enactment. In the periodical literature of these years we find an immense amount of propaganda bearing on the subject.

In the middle of 1921 the agricultural crisis used to be first page news. The unrest amongst the farmers eventually resulted in the formation of a strong "agricultural block" in Congress. The political manoeuvres of this group have been very severely criticized in some circles, while in other circles it has been very strongly defended. Most of the criticism, and also the activities of the "agricultural block" itself, were due to an inadequate grasp of the real problem. It was not a simple credit problem alone which was really responsible for the farmers' difficulty. It was a question of readjustment of the whole national economy which required immediate drastic changes owing to the changed conditions of the world and of the United States itself. The expansion which had been brought about during the War required to be readjusted. It is important to note that by this time, instead of being a debtor country, the United States had become one of the chief creditor nations of the World. And this new position of the country was incompatible with the old order which still existed,

The War gave a great stimulus to agriculture under the slogan, "Food will win the War." The Department of Agriculture with the co-operation and help of the National Council of Defence and of the State Councils exerted every possible pressure on the farmers of the country to increase their production.

The Food Production Act of 1917 apportioned two and a half million dollars to the emergency seed fund, which was later increased to six and a half millions. The production of corn, cotton, wheat, live-stock and wool was tremendously increased. Unfortunately, this production did not end with the War. During this period, the cost of practically everything went up. The cost of production, wages, standard of living, land prices, in short everything, was taking an upward trend. The characteristic feature of most of these costs is that they do not fall immediately in the same proportion as the fall in the general price level. With the fall in prices in 1921, the cost of production did not fall to any appreciable extent. Wages in the early period remained at the high level, and it is not easy to change the established standards so quickly. The result was that with the fall in prices, the farmer was faced with disastrous consequences of a kind which he had never imagined. Foolishly it was considered by most farmers that the War and post-War boom would be a permanent feature. Many farmers were quite unprepared for the depression when it came. Many farmers had borrowed recklessly and had indulged in land speculation; the prices of land during the boom period had risen to absurd levels, and with the great fall in the prices of agricultural products, the burden of debts became crushing. The farmers, in order to meet their obligations and to carry on their farming, required increasing amounts of money which they tried to get by producing more, and thus their own efforts, instead of making them better off, worsened their position. In this desperate state of affairs they looked to Congress for help. Criticism against credit institutions was most bitter in the farmers' Press, because they found out, to their dismay, that the banks, instead of providing more credit, were looking to the

farmers for repayments. "Caught between the upper millstone of falling prices and the lower millstone of higher costs, the individual farmer was left all helpless. Unaccustomed to thinking internationally, he was not well aware of the relations between his business and the European situation."[1]

It was natural, under these circumstances, that he should put the entire blame on the shoulders of financial institutions, as he considered that the entire problem was a credit problem, and if this problem were solved the problem of falling prices would also be automatically solved. This psychological belief illustrates the campaign for credit carried on by the farming interests, and this perhaps explains why innumerable bills were put forward in Congress.

It was nót possible for Congress to pass any hasty legislation in regard to such an important subject before the matter had been thoroughly investigated. Consequently Congress appointed the Joint Commission of Agricultural Inquiry in 1922 to investigate it.

### The Joint Commission of Agricultural Inquiry

The Commission was required to investigate and report on the following subjects—[2]

1. The causes of the present condition of agriculture.
2. The cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer.
3. The comparative condition of industries other than agriculture.
4. The relation of prices of commodities other than agricultural products to such products.
5. *The banking and financial resources and credits of the country, especially as effecting agricultural credits.*
6. The marketing and the transport facilities of the country.

While the Commission was making inquiries, large numbers of bills were submitted to Congress bearing on the

[1] Eliot, C. *The Farmers' Campaign for Credit*, page 181.

[2] Credit Report of the Joint Commission of Agriculture Inquiry, Part II, 67th Congress Report No. 408, page 7, 1922.

various sides of agriculture. These bills can be classified into three distinct groups—

1. Those that would provide additional rural credit machinery within the framework of federal land banks.

2. Those that would make the War Finance Corporation a permanent body with certain modifications.

3. Those that would provide for the amendment of the Federal Reserve Act to provide additional credit facilities to the farmers.

Owing to the conflicting nature and the multiplicity of the bills it was not possible for Congress to take any action on any of these bills during the Third Session of the 67th Congress. In the beginning of the Fourth Session, President Harding in his message to Congress laid great stress on the necessity of passing some rural credit legislation. But he was not in favour of any of the measures which were proposed in the vast army of bills before Congress.

**Recommendations of the Joint Commission on Agricultural Inquiry**

The Commission had a very unwieldy task before it, as its terms of reference were very wide. The Commission held numerous sittings and inquired into every possible phase of the agricultural situation. It issued its report in four volumes in the latter part of 1921. The second part of the report deals exclusively with credit. The Commission was of the opinion that the bank credit facilities for the farmers were not adequate. The drop in prices in 1920 and 1921 reduced the farmer's[1] income and made his condition worse. "Farm indebtedness had doubled in the last ten years and the drop in prices has the effect of again doubling this indebtedness. Farmers are having the greatest difficulty in paying the debts incurred in producing the crops of 1920 and in securing credit necessary for new production. The Commission believes that these difficulties are due in a measure to the credit restrictions and limitations of the past eighteen months, and in part to the fact that the banking machinery of the country is not adequately adapted to the farmer's requirements."

[1] Report of the Joint Commission of Agricultural Inquiry. *Op. cit.*, page 7.

After analysing the banking institutions of the country and their credit operations, the Commission was of opinion that "There is a gap between the short time and long time credits furnished by these banking agencies which should be filled in some way." The credit provided by the banks—generally for six months—was too short and the credit provided by the Farm Loan System and other long term lending agencies was too long for marketing requirements. Credit for the orderly marketing of agricultural products is required from a period of six months to one year or more according to the nature of the commodity. In the case of crops, six months to a year's credit may be sufficient, but in the case of live-stock it may be necessary to have credit up to three years. The live-stock industry at this period was suffering serious losses owing to stringency of credit. In order to supply this type of credit the commission recommended the creation of a new department within the framework of the federal land banks to supply credit from six months to three years for the purpose of discounting agricultural paper by the country banks.

In order to supply credit facilities to the farmers' co-operative marketing associations, the commission recommended that this new department should be authorized to make direct loans to the co-operative marketing associations. This new department was to take the form of the intermediate credit banks and the initial capital to set up such banks was to be supplied by the Treasury, and further funds were to be raised by the issue of debentures, to be issued on the security of agricultural paper in possession of these banks. The Commission drew up a tentative rural credit bill based on these provisions. This bill was subsequently introduced into Congress and became known as the Lenroot Andersen bill.

### The House and Senate Committees on Banking and Currency

The recommendations made by the Joint Commission of Agricultural Inquiry were not considered satisfactory, and the House and Senate Committees on Banking and Currency were directed to investigate the matter more

fully. They held several meetings, during the summer months of 1922, and all interests were called upon to give evidence. The volumes of evidence show that there was general agreement about the lack of credit facilities, but there was no agreement about the remedies. In brief, the following were the general complaints—

1. Loans were not made for adequate periods of time in order to enable the farmers to carry on their production and to market their products satisfactorily. The loans made by the commercial banks were too short for organized production and orderly marketing. Mortgage loans were too big to meet the requirements for working capital.

2. The cost of credit was too high. The interest rates charged to farmers were much higher than those charged to merchants. In many cases, for short-term credit, he had to pay as much as 12 to 15 per cent.

3. The source of credit was not dependable. Farmers were at the mercy of the lending institutions. They were forced to make repayments when they were most in need of further accommodation.

4. The lack of co-operative banks.

A bill was introduced by Senator Brookhart for providing co-operative banks, but it was not reported out of Committee.

Congress was puzzled what to do. There was no general agreement about the remedy although all agreed that the evil existed. Even the "farm block" was divided. The management of none of the existing federal credit institutions was prepared to assume the responsibility for administering a special intermediate credit system. The federal reserve board declared that the reserve banks had no place for a special rural credits department. The farm loan board held a similar view about the place of this new department within the framework of federal land banks. The director of the War Finance Corporation was positive that it was not desirable that it should be made a permanent institution.

### The Capper-McFadden Bill

The Managing Director of the War Finance Corporation was, however, confident that the federal reserve system

could be made to cater for the credit needs of the farmers for both production and marketing requirements. He was of the opinion that only the live-stock industry required special credit which could be provided by creating National Agricultural Credit Corporations. Embodying these views he drafted a bill which was introduced into Congress as the Capper-McFadden Bill. This bill proposed to amend the Federal Reserve Act to allow the federal reserve banks to discount agricultural paper of nine months' maturity instead of six months, and that the small country banks with a capital of less than $25,000 should be permitted to join the federal reserve system so that a new channel of credit should be opened to the farmers. Special emphasis was laid on the importance of enabling the country banks to join the federal reserve system as the facilities of the system would be afforded to the farmers living in small communities. In order to encourage the co-operative marketing of agricultural products, the bill provided that the paper of the co-operative marketing associations should be classified as agricultural paper. There was no provision of State help or tax exemption of bonds in this bill.

### Lenroot-Andersen Bill

In contrast to the McFadden Bill, the authors of the Lenroot–Andersen bill believed that the federal reserve system was inadequate to meet the credit requirements of the farmers especially in regard to intermediate credit needs. It proposed to establish a system within the framework of the federal land banks, but separate and distinct from them, to provide intermediate credit.

The necessary capital required to start the system was to be subscribed by the Treasury, and it was to finance its operations through the sale of tax exempt bonds. This was the fundamental difference between the two bills. The Capper-McFadden Bill only proposed to liberalize credit facilities by amending the Federal Reserve Act and was against any State aid, while the very basis of the Lenroot-Andersen Bill was State aid and the establishment of new institutions.

**Controversy Regarding the Merits of These Two Bills**

Great controversy arose over these two bills in Congress. There was a wide divergence of conflicting views over their merits. The representatives of the co-operative marketing associations and the live-stock industry strongly advocated the Capper-McFadden bill, while the agricultural sections of the middle west very enthusiastically supported the Lenroot-Andersen Bill. The Co-operative marketing associations emphatically denied the necessity for the creation of any new institutions; they firmly believed that if the present banking laws were amended existing institutions would be able to supply all legitimate credit needs. They advocated that their paper should be classified as agricultural paper and should be eligible for rediscount with the reserve banks for a period of nine months.

Under the conditions then existing their paper was classified as commercial. They laid great stress on the fact that they were not mercantile associations, but were associations of the farmers who were engaged in providing credit for the storage and orderly marketing of agricultural products, and that this was a direct aid to the agricultural industry. They considered that there was no need to start the intermediate credit banks. Their attitude is revealed in the following statement—

> We do not, therefore, want new governmental bodies set up for the purpose of giving farmers access to Government funds. We want the right to tap the present existing resources of the commercial money of the United States—to tap them in a way that will make them serve the farming interests—our reliance is practically wholly on existing banks and the existing federal reserve system. We believe that the existing banks and the federal reserve system can be made to meet 100 per cent. of the needs of agriculture.[1]

The attitude of the American National Live-Stock Association was also very similar. Their representative giving evidence before the House Committee on Banking and Currency remarked—

> We want to have our industry financed as any other important industry is financed. We ask for no Government money, no tax

[1] Statement of Aaron Sapiro. Hearing before the House Committee on Banking and Currency. *Rural Credits*, Part II, pages 279–85.

free bonds, no red tape with Government bureaus . . . we want it fixed now that the banks which buy our paper will buy it because the security is good and the loans are safe—not because of the high interest rates.[1]

On the other hand, the majority of farmers' organizations were in favour of the Lenroot-Andersen Bill. It was endorsed by the American Farm Bureau Federation, and was supported by the National Grange and the Farmers' Union. They held that the Capper-McFadden Bill did not make adequate provision to meet the credit needs of all kinds of farmers. It was specially drafted in the interest of co-operative marketing associations and the cattle industry. In their opinion, the Lenroot-Andersen Bill was a clear improvement on the McFadden Bill and was decisively a better measure for the agricultural industry, as it did provide adequate credit facilities under the auspices of a Governmental body, and backed them up with tax exemption. This they believed would go a long way to lower the interest rates, the intolerable burden of which was crushing the farming industry. The important provision of credit from six months to three years was hailed as a herald of the better treatment which agriculture was going to get.

Not only were there divergent views in Congress and also in the "agricultural block" over the merits of these two bills, but the controversy also gave rise to a split in the President's Cabinet.

The Secretary of Agriculture was strongly in favour of the Lenroot-Andersen Bill, while the Secretary of the Treasury was strongly opposed to it.

The Secretary of Commerce held that the credit needs of agriculture were very much exaggerated. However, he was mildly in favour of the Lenroot-Andersen Bill. The opposition of the Secretary of the Treasury was publicly revealed when he wrote a letter to the Chairman of the House Committee on Banking and Currency opposing the enactment of the Lenroot-Andersen Bill on grounds that "its financial provisions were unsound and dangerous and its administrative features unworkable."

[1] House Committee on Banking and Currency., pages 1 and 2.

He also objected to the Government ownership of the system, and to the provision for tax exemption. This controversy reached its height when the Secretary of Agriculture wrote an open letter to the Press condemning the Capper-McFadden Bill and supported the Lenroot-Andersen Bill. He declared in his letter that the Capper-McFadden Bill was not an agricultural credit bill at all, and was designed expressly to encourage the organization of private credit corporations with the help of the Government in order to enrich the stockholders of these associations. He expressed his doubts about the usefulness of this to the agricultural industry with the exception of the cattle industry and the co-operative marketing associations. In the close, he remarked, "I see no strong objection to the enactment of the Capper Bill, also, but to offer the latter as a rural credit bill or a substitute for the Lenroot-Andersen Bill would give the farmers of the nation the best of reasons for feeling that in reply to their request for bread they have been offered a stone."

So acute was the difference of views between the conflicting interests that, during January, 1923, the Senate passed both these bills, while at the same time in addition to these two bills, the House also passed a third rural credit bill, which was known as the Strong Bill, and made various provisions for the amendment of the federal land banks. The parties remained so loyal to their views that no reconciliation was effected during February.

The life of the session was drawing nearly to an end and there was desperate need to do "something." This "something" was done by the House on 1st March by combining all the three bills which it had passed previously into one bill. A Joint Committee was then appointed to reconcile the Senate and House bills. Owing to limited time it was not possible to effect reconciliation as the parties were very obdurate; consequently, in order to please all the interests, it linked all three into one comprehensive bill without making any changes in the context, and sent it to Congress. The 67th Congress was just closing for its last session when it passed this comprehensive bill with an overwhelming

majority and it became the Agricultural Credits Act of 1923, when the President signed it on 4th March.

It is remarkable to note the shortness of time within which all this was accomplished.

Before we study the working of the intermediate credit system we shall briefly describe the main provisions of this Act.

### Main Provisions of the Agricultural Credits Act of 1923

The purpose of the Act has been defined in the preamble as "An Act to provide additional credit facilities for the Agricultural and Live-stock Industries of the United States, to amend the Federal Loan Act; to amend the Federal Reserve Act; and for other purposes."[1] Like the Federal Farm Loan Act this Act provides for two fundamentally different kinds of institutions—Government institutions and private institutions. The Government institutions are the federal intermediate credit banks, and the private institutions are the national agricultural credit corporations.

### The Federal Intermediate Credit Banks

Title 1 of the Agricultural Credits Act of 1923, which contains the main provisions of the Lenroot-Andersen Bill provides for the establishment of twelve intermediate credit banks to be established in the same cities as the federal land banks. It was decided to attach them to the federal land banks as it was considered both convenient and economical. The idea underlying this scheme was that there would not be enough business to justify the creation of these new banks as separate independent institutions. The director and officers of the federal land banks were made the ex-officio directors and officers of the intermediate credit banks. In practice separate officers have been appointed to carry on the work of the intermediate credit banks, and their accounts are kept distinct from the accounts of the federal land banks.

The supervision of these banks has been entrusted to the

[1] The Agricultural Credits Act of 1923. 67th Congress Public Document No. 503.

federal farm loan board which makes necessary rules and regulations for the transaction of their business.

**Capital of the Banks**

The federal intermediate credit banks are Government institutions, and their entire capital has been subscribed by the Federal Treasury. The Act provides that the Treasury should apportion a sum of money not exceeding five millions for each bank.

In order to raise capital for further requirements, the Act provides that federal intermediate credit banks should be authorized to borrow money by the issuing and selling of collateral trust debentures, or other similar obligations, with a maturity not exceeding five years. These debentures are to be secured by an equivalent amount of cash or "notes or other such obligations discounted, purchased or representing loans made."

It is interesting to note here that the federal intermediate credit banks have been allowed to issue such bonds not to exceed ten times their capital and surplus, while the joint-stock land banks can issue bonds up to fifteen times their capital and surplus, and the federal land banks can issue up to twenty times their capital and surplus. The federal farm loan board has been entrusted with the supervision of issuing these bonds and its approval must be obtained before any bonds are issued. Like the land bank bonds, the bonds of federal intermediate credit banks are exempt from income tax. But the United States Government assumes no responsibility for them. Each bank is liable to pay its own interest and repay borrowed capital, and is also liable "for such portion of the principal of debentures or obligations so issued as are not paid after the assets of such other federal intermediate credit banks have been liquidated and distributed."

**Help of the Federal Reserve Banks**

The Federal Reserve Act was amended to authorize the federal reserve banks to rediscount the paper of federal intermediate credit banks with a maturity not exceeding

nine months. This has been a great source of credit to the federal intermediate credit banks. The reserve banks may also buy the debentures of the federal intermediate credit banks with a maturity not exceeding six months. In practice, however, they have not bought these debentures to any considerable extent as there has always been an adequate response for the purchase of such debentures by the public. The federal reserve banks also act as agents to the federal intermediate credit banks in the payment of interest and principal on debentures.

**Loans**

The federal intermediate credit banks are not allowed to lend money directly. Loans are made by discounting paper for state or national banks, Trust companies, agricultural credit corporations, incorporated live-stock loan companies, savings institutions, co-operative banks, co-operative credit or marketing associations of agricultural producers or for other federal intermediate credit banks. Paper eligible for purchase or discount comprises any note, draft, bill of exchange or debentures, the proceeds of which have been advanced or used for any agricultural purpose or for the raising, breeding, fattening, or marketing of live-stock.[1] The federal intermediate credit banks have also been authorized to make direct loans to co-operative associations of agricultural or live-stock producers, on notes secured by warehouse receipts or shipping documents up to 75 per cent. of their market value. The maximum period up to which the federal intermediate credit banks are authorized to make loans is three years.

The federal intermediate credit banks are allowed to fix their own interest rates for their debentures, subject to the approval of the federal farm loan board. But they are not allowed to charge a rate of discount higher by more than 1 per cent. than that paid on their previous debentures. This margin of 1 per cent. has been left to meet their working expenses. It has been possible to work on this low margin as these banks are Government institutions, and the

[1] For detailed account, see Circular No. 15 of the Federal Farm Loan Board, page 11.

Federal Government does not take any profits on their subscribed capital.

In the original Act the financial institutions, which were given the privilege of rediscounting with the federal intermediate credit banks, were not allowed to charge a rate of interest to their clients higher than 1½ per cent. above the discount rate of the federal intermediate credit bank except with the special permission of the federal farm loan board. This margin was considered very inadequate by many financial institutions so, on 7th January, 1924, the federal farm loan board increased this margin to 2 per cent., which was further increased to 2½ per cent. on 21st January, 1925. In April, 1931, this margin was increased to 3 per cent. as many live-stock companies complained that it was not possible for them to carry on their business profitably at a 2½ per cent. margin.

Another amendment was made in the Act in June, 1930, to simplify the process of borrowing by permitting these financial institutions which were eligible for rediscount to borrow on their own notes secured by a paper that is eligible for discount. Under the original Act, these institutions could obtain funds from federal intermediate credit banks only through rediscounting individual farmers' paper. This amendment allowed them greater flexibility. The Act imposes certain restrictions on the rediscount privileges. For instance, the maximum amount of discounts for any banking institution is fixed at twice its paid-up capital and surplus. Agricultural credit corporations and live-stock companies which have no deposit liabilities are allowed to rediscount not exceeding ten times their capital and surplus.

### State Credit Corporations

The most distinctive feature of the federal intermediate credit system is the creation of State agricultural credit corporations—co-operative bodies of the farmers organized under State laws. They must be distinguished from the national agricultural credit corporations,[1] which are incorporated by the Federal Government, but had no

[1] Described elsewhere.

connexion whatsoever with the federal intermediate credit banks according to the provisions of the original Act. The fundamental idea underlying these State co-operatives is to create the spirit of co-operation amongst the farmers and to provide channels of credit other than the banks. We have seen in the previous pages that the local banks failed to extend a helping hand to the farmers at the most critical periods of their needs and they were rather "fair weather" friends. Expression to these feelings was very frequently given both inside and outside Congress. The farmers' Press and organizations were very emphatic on this point. One of their representatives in Congress made their views clear before the House Committee on Banking and Currency when he emphasized in his evidence the need of establishing agricultural credit corporations. "While the farmer may be refused credit at the bank of deposit, he has this new avenue of approach. It is not always the fault of the bank of deposit, for the banks, for one reason or another, may not be able to accommodate the farmers. That, however, is not sufficient reason why the farmer should not be financed. He should, on the contrary, be helped just the same, and in much greater degree when the bank has exhausted its resources, than if it was still able to function properly. That is really where his real distress begins."[1]

In order to provide greater credit facilities to the farmers through their own organizations and to create agencies to help them when their local banks were not able to do so, the Act authorized the establishment of State agricultural credit corporations organized under the laws of any State, and such corporations were made eligible to rediscount their paper with the federal intermediate credit banks.

The federal farm loan board has defined these organizations as: "Corporations organized under the law of any state for the purpose of loaning money for agricultural purposes or for raising, breeding, and fattening of live-stock."[2]

[1] Evidence given by Mr. Silver Grey, Representative of the American Farm Federation, before the House Committee on Banking and Currency. *Op. cit.*, page 254.

[2] Circular No. 15. *Op. cit.*, page 11.

The minimum capital for these organizations has been fixed at $10,000 and they are allowed to rediscount up to ten times their capital and surplus. They are not allowed to charge a rate of interest higher by more than 3 per cent. than what they pay as discount to the federal intermediate credit banks. The farm loan board has encouraged the organization of agricultural credit corporations in those agricultural districts which lacked credit facilities.

As the definition of the Corporations is very wide, they have been organized by various bodies for different purposes. In some instances they have been established as subsidiaries of banks in order to relieve bank portfolios of slow agricultural paper. In other sections they have been organized by farmers and local business men for the purpose of providing a more ample supply of production credit. In still other parts they have been set up as subsidiaries of co-operative marketing associations with the purpose of providing production credit for the members of the association.

We shall examine all these aspects when we describe the working of these corporations.

**National Agricultural Credit Corporations**

Title II of the Act, which comprised the main provisions of the Capper-McFadden Bill, provided for the establishment of credit institutions known as national credit corporations. The original Agricultural Credit Act of 1923 created these institutions as separate and independent bodies having no connexion whatsoever with the federal intermediate credit banks. But by the amendment of the Act on 4th March, 1925, the federal intermediate credit banks were authorized to rediscount paper for them. These corporations were to be dependent on private institutions and capital for the purpose of providing credit facilities for the agricultural and live-stock industries.

These corporations were subject to federal control and supervision. The Comptroller of the Currency was authorized to grant them charters similar to those of the national banks, and to exercise control. In granting a charter due

regard is paid to whether there is an economic justification for such an institution, and the adequacy of the State laws in regard to protection for loans made on the basis of warehouse receipts or chattel mortgages.

**Capital of the National Credit Corporations**

The minimum capital of these corporations has been prescribed as $25,000. This minimum must have been fully paid in before the corporation is allowed to do business. Corporations with a higher capital than this must have half of their capital paid up before they can do any business, and the remainder must be paid up within six months. These rigid capital requirements have been fixed in order to discourage the multiplicity of small institutions and to create public confidence in them. Moreover, the capital requirements of the live-stock industry being higher than those of the agricultural industry in general, they must have well capitalized financing institutions. "The real difficulty that prevented adequate financing of the range cattle industry during the depression of 1920-25 was that the investing public had lost faith in a good many of the existing cattle loan companies and in the cattle paper they issued. As a result, the source of funds that usually went into this industry got dried up. If such an occurrence is to be prevented in the future, permission must not be granted to form new credit institutions in any locality where the conditions under which they are compelled to carry on their business are such that a safe credit transaction cannot be conducted. The framers of the Act hoped to encourage the live-stock organization to take the initiative in improving some of the existing state laws in these respects."[1]

Before the Agricultural Credit Act was passed, the commercial banks frequently operated cattle loan companies as adjuncts to their main business. This was contrary to all sound banking principles. More often than not, the banks were involved in financial troubles owing to the depressed condition of the cattle industry. The affairs of the cattle

[1] Baird & Benner, *Ten Years of Federal Intermediate Credit*, page 95.

loan companies and the banks used to get so mixed up that it was not possible to exercise adequate control over either. In order to stop this unsound practice, the Agricultural Credit Act was designed to create the national agricultural credit corporations as separate and independent institutions; in order to give more facilities to those banks which were interested in financing the live-stock industry, the Act authorized those member banks of the federal reserve system (subject to the approval of the Comptroller of the Currency) to invest their funds (not exceeding 10 per cent. of their capital and surplus) in the stock of national agricultural credit corporations.

**Nature of the Loans**

The national agricultural credit corporations are authorized to make advances or discount paper or accept drafts of the following nature—

1. Paper having a maturity not exceeding nine months and secured by chattel mortgages on live-stock which is being fattened for the market.

2. Paper having maturity not exceeding nine months and secured by warehouse receipts representing non-perishable agricultural commodities.

3. Paper secured by agricultural crops being grown for market. The Act was amended in February, 1927, to allow these corporations to make advances on the security of growing crops.

4. Paper having a maturity not exceeding three years and secured by chattel mortgage, for maturing, breeding, or dairy herds.

These corporations are not authorized to lend more than 20 per cent. of their capital and surplus to any one party except in the case of loans which are made on the security of warehouse receipts representing non-perishable agricultural products. The maximum limit in this case is 50 per cent. In the case of loans which are advanced on the security of live-stock, the corporations are directed to make careful inspection of all the live-stock collateral. Previously the chief difficulty in financing the live-stock industry was the

inadequacy of inspection. In order to remedy this serious defect, a licensing system of live-stock inspection, similar to the federal system of licensing Government warehouses, was set up. The Secretary of Agriculture was authorized to grant licences to competent persons to act as live-stock inspectors; and in order to prevent those inspectors from making false statements, they were punishable, on conviction, with a fine of $5000 or imprisonment not exceeding five years, or both. It was hoped that, through these restrictions, the live-stock paper would be made more secure and the chief cause of losses on live-stock loans would be considerably reduced. Another serious defect in the previous system was that the live-stock companies were not merely financing institutions, but in many cases combined trading and merchandising with financing. They were involved in troubles many times not principally through their lending operations, but because of their indulgence in cattle raising for themselves. In order to discourage this unsound practice, the Act prohibited any corporation from purchasing, owning, or dealing in any live-stock except when such live-stock is taken in the course of liquidating loans.

**Reserve Requirements**

The national agricultural credit corporations are required to keep minimum reserves with the federal reserve banks. A corporation before starting its business is required to make a deposit of United States' Government securities with the federal reserve bank of its district to the extent of 25 per cent. of its paid-up capital.

The reserve bank keeps these securities in trust for the protection and benefit of the corporations' creditors. If the corporation expands its business it must make further deposits. The Act provides that the value of deposited securities must in no case be less than 7.5 per cent. of the corporations' total liabilities, and not be less than 25 per cent. of its capital in any case. If at any time the amount falls below the minimum, the companies are prohibited from making any further loans unless this deficiency is

made up. The aim of this measure was also to strengthen public confidence in live-stock paper. No limitations have been imposed on these corporations by this Act regarding the rate of interest which they should charge. They are authorized to issue debentures, but such debentures are not exempt from income tax. However, no debentures have been issued by the corporations so far. The corporations with a capital of at least 1 million dollars or over are authorized to act as central rediscount corporations. In practice no corporation has acted in such a capacity so far.

**Working of the Federal Intermediate Credit System**

Having studied the main provisions of the Agricultural Credit Act, we are now in a position to study the working of this Act. It is remarkable to note that the federal intermediate credit banks were organized in a very short time. The President signed the Act on 4th March. On the following day the federal farm loan board called a conference of the Presidents of federal land banks in Washington to discuss plans for organization of the federal intermediate credit banks. By the end of the month all arrangements were completed. The banks were duly chartered and were practically ready to start business. On 6th April the federal farm loan board issued rules and regulations regarding the making of loans and discounting of paper by the federal intermediate credit banks—and in these regulations it tried to remedy the defects of the Act which was a very heterogeneous document. In making these regulations it drew on the experience of the War Finance Corporation, and issued instructions that the federal intermediate credit banks were to proceed cautiously in their business operations. The Board had a dual task—to secure the co-operation of the existing institutions and to win the confidence of investors. This attitude is revealed from the following statement made by the Board—

The intermediate credit banks are essentially a new departure and a new system, and must be developed with patience, prudence, and care all along lines of absolute safety. It will be the ambition of those charged with the administration of the new law to render

maximum service, but elemental business safety must be the first consideration; and banks and co-operative institutions, desiring to use the service and see it developed, will make their best contribution by offering nothing but perfectly sound paper, thus avoiding disappointments and dissatisfaction.

This cautious policy of the Board was necessary if these new institutions were to work successfully. There was prevalent at that time a mistaken belief that these new banks were relief and emergency institutions. It was true that these banks were to take over the work of the War Finance Corporation but, unlike it, they were to be permanent organizations to be operated on strict business principles. Therefore, the Board made it known that these banks were not created as emergency agencies, and were not prepared to take, directly or indirectly, any inadequately secured paper. This led to great disappointment among those persons who had cherished extravagant hopes. The Board was severely criticized for this strict business attitude. The Agricultural Commission, appointed by President Coolidge in 1924, also criticized the federal intermediate credit banks for not placing their facilities more freely at the disposal of the live-stock industry. We should see little justification in these remarks when we realize the various heterogeneous institutions with which these banks had to deal, and that it would not have been a sound business principle to advance money or discount the paper of any institutions which did not furnish adequate security. Viewing the situation as a whole, one has to admit that the federal intermediate credit banks have been of immense importance to the agricultural and live-stock industries and have furnished a desirable source of credit, and that, in spite of its limitations, the system has worked excellently.

### Benefits of the Federal Intermediate Credit System

In order to estimate the benefit derived from these banks, we shall describe briefly their lending operations. The principle object of the Agricultural Credits Act, as has been set forth in its preamble, is "to provide additional credit

facilities for the Agricultural and Live-stock industries of the United States." Now, we shall see how far these banks have provided the additional credit facilities.

**Loans to Commercial Banks**

Before the federal intermediate credit banks came into operation, the two important sources of production credit were the commercial banks and live-stock companies. After the system came into operation, agricultural credit corporations were organized to take advantage of the new system. We shall discuss the response of each of these institutions in their respective order. Taking the commercial banks first, we find that their response has been very disheartening. It was expected that they would become the most important link between the farmers and the federal intermediate credit banks, by extending credit facilities to the farmers and discounting their paper with the federal intermediate credit banks. During the first two years the value of the loans discounted by the commercial banks with the federal intermediate credit banks was fairly impressive. During the first year 15 per cent. of the discount business was with the commercial banks, although it represented less than 1.5 million dollars. In 1927 it dropped to 1 million, and during the following years it had become quite insignificant. Thus, the commercial banks failed to take any substantial advantage of the federal intermediate credit banks and did not serve their communities as was originally expected. It has been a general custom with the commercial banks in small towns to borrow from their city correspondents, or those who were eligible have discounted with the federal reserve banks of their districts. The reasons are not far to seek. The city correspondents are more accommodating owing to long business relations, and are free from red tape. They have discounted with the federal reserve banks because their discount rate is generally lower than the rate charged by the intermediate banks. Moreover, the federal reserve board has been more lenient in the definition of agricultural paper than the farm loan board. The federal reserve banks treat a farmer's note as

agricultural paper, even if presented by a merchant, if the proceeds are used for agricultural purposes. On the contrary, the farm loan board has ruled that notes given by farmers to commercial concerns for the purchase of farm supplies, machinery, and fertilizers, are not eligible for discount with the intermediate banks. The restrictions imposed by the federal farm loan board on the rates of interest to be charged by the commercial banks are also considered severe and handicap the commercial banks in their loan operations. In 1931, the Board raised the margin from 2½ per cent. to 3 per cent. This increase was made with the hope that the commercial banks would now find it worth their while to take advantage of the discount facilities provided by the intermediate credit banks, and thereby would serve their clients better. The result has not been a very encouraging one. The highest percentage of discount for the commercial banks, reached during the last quarter of 1932, was only 2.4 per cent. ($1,994,000) of federal intermediate credit banks' total discount business.

**The only National Agricultural Credit Corporation**

The weakest point of the Agricultural Credits Act has been the clause authorizing the creation of national Agricultural Credit corporations as distinct from the state credit corporations. Much hope was based on them, and it was expected that they would go a long way to solve the intermediate credit problems. The Act has been in operation now for twelve years, but, so far, only three national credit corporations have been organized, of which only one was meant to be a permanent institution, and the remaining two were emergency corporations organized to lend on corn that was stored in the warehouses in the State of Iowa. The prices of corn had fallen so tremendously in 1926, that it was considered desirable to help the farmers, and save them from bankruptcy. After the rise in the price of corn and the passing away of that period of emergency, these two corporations were voluntarily liquidated. The only national credit corporation which exists to-day is the Pacific National Agricultural Credit Corporation, which was organized

in July, 1925, through the joint efforts of the Western Cattle Marketing Association and the commercial banks of Los Angeles and San Francisco, to make loans to the live-stock industry. The lending operations of this Corporation covered many States—California, Arizona, Nevada, Oregon, Utah, Idaho, New Mexico and Texas. The Corporation has lent over 3 million dollars to the live-stock industry.

On 29th September, 1929, it had 2.8 million dollars rediscounted with the federal intermediate credit banks. At the same date discounts of the federal intermediate credit banks secured by live-stock collateral amounted to 46.2 million dollars.[1] This shows that a little more than 6 per cent. of all the live-stock paper, discounted by the federal intermediate credit banks, was from the Pacific National Credit Corporation.

**Stagnant Growth of the National Agricultural Credit Corporations**

The study of the periodical literature of 1923 shows that there was great optimism in the views expressed at the time about the usefulness of these corporations. It was hoped that they would bring relief to the cattle industry. But the following years have led to great disappointment. Even pessimistic people did not expect that the result would be almost nothing. There is no probability that any such corporations will be organized in the future. The reasons are not far to seek. In the presence of federal intermediate credit banks there is no possible chance of these corporations to succeed. It should be remembered that the authors of this plan did not intend to start, or were rather opposed to the creation of, federal intermediate credit banks. There is no doubt that, had there not been any federal intermediate credit banks, these corporations would have met with better luck. The Agricultural Credit Act, as has been already pointed out, was a heterogeneous document which amalgamated these conflicting bills in order to reconcile political and party differences, and it has set up institutions which compete with one another.

[1] Report of the Comptroller of Currency, 1931, page 163.

If saner counsels had prevailed, these inconsistencies would have been, or ought to have been, removed. This attitude is revealed by the following remarks—

I am frank to confess that there is something of inconsistency in attempting to set up in the same measure the two systems under the Bill passed by the House.[1]

It is not possible for the national credit corporations to compete with the federal intermediate credit banks. Moreover, they are also handicapped in competition with the state credit corporations, which work under rather looser provisions. Many cattle loan companies have been organized as credit corporations under State laws. Perhaps it would have been better if all the cattle corporations had been compelled to organize under the national laws.

**Loans to State Agricultural Credit Corporations for the Live-stock Industry**[2]

In contrast to the national corporations, the state corporations were organized very quickly immediately after passing the Agricultural Credits Act. In the beginning they were created to relieve the frozen assets of the banks. This was done by misunderstanding, as many farmers considered the federal intermediate credit banks to be relief institutions. During the years 1923–25 a large number of such corporations was organized to take advantage of the new credit system which was available through the federal intermediate credit banks. But they soon learnt to their grief that the federal intermediate credit banks were not relief institutions. Later these corporations were organized as specialized financial institutions particularly adapted to suit the credit needs of the live-stock industry. The promptness with which the live-stock credit corporations were organized in the beginning and their excessive failure (due to lack of proper understanding of the functions of the federal intermediate credit banks) is revealed from the following facts.

Before the close of 1925,[3] 243 accounts had been opened for the purpose of re-financing live-stock paper, but by

[1] Hon. Henry B. Steagall. *Congressional Record*, Vol. 64, 1923, page 5388.

[2] For abbreviation, we shall use the term "Live-stock Credit Corporations."

[3] For details, see Baird and Benner. *Op. cit.*, page 125.

31st December, 1929, less than 30 per cent. of them remained active. Only seventy-three accounts were opened during the following four years, but 75 per cent. of the corporations maintained their discount relationships at the close of 1929. The reasons for the stability of the latter accounts are: that by that time the corporations had understood the situation properly—that the business with the federal intermediate credit banks must be on sound principles. They were sound banking instead of relief institutions. Later it became easier for them, as the proceeds of the discounts were utilized for current operations. Gradually smaller and unsound corporations were replaced by better and stronger corporations with large capital, and the live-stock industry attracted larger funds from the federal intermediate credit banks. At the end of 1932 the cattle industry had discounted $59,133,000, which represented more than two-thirds of the total rediscounts of the federal intermediate credit banks.[1] Before 1926 their discounts at no time reached over 15 millions.

**Crop Production Loans**

By crop production loans are meant such loans as are advanced to the farmers for raising crops, and to meet other current expenses which are necessary for the production of crops. Such loans are liquidated from the proceeds of the crops.

We have seen, in the first chapter, that commercial banks are the most important source of production credit, and that the farmers and their representatives have criticized them on the ground that their rates of interest are high, and that they compel the farmers to undertake early liquidation, which results in disorderly marketing and the depression of prices. Moreover, this source of supply was both inadequate and uncertain. During the discussion on the Agricultural Credits Bill, in Congress, the Secretary of Agriculture emphasized the necessity of providing a rural credit system which would promote more stable farm production and more orderly marketing. He considered that loans for crop

[1] Report of F.F.L.B., 1932, pages 35–36.

production were as necessary as loans for the live-stock industry, or for the co-operative marketing of products. The opposition asserted that the commercial banks were meeting the need quite adequately within the limits of safety and their responsibility to their depositors. Crop production loans are risky owing to the instability of agricultural production. The failure or over-abundance of a crop may jeopardize the security of advances. This very argument was used in favour of crop production loans to be advanced by the agricultural credit corporations. It was alleged that the banks cannot safely renew the loans when the proceeds of the crops are not sufficient to liquidate them, as the banks must keep their assets liquid to meet their obligations. But there was no reason why the farmer should suffer through no fault of his own. It was alleged that agricultural credit corporations would be the most suitable bodies to advance such loans, as they should be able to renew these loans without any fear of not keeping their assets liquid for they would not have any deposit liabilities, and they would have the privilege of rediscounting with the federal intermediate credit banks. In 1925, bank failures were numerous, and the ordinary channels of production credit were getting drier. Advantage was taken of this critical time, and a large number of agricultural credit corporations was organized to advance crop production loans. The number of such corporations is largest in the three districts—Columbia, New Orleans, St. Louis—where the number of bank failures has also been the largest. Two-thirds of the crop loans originate from these three districts. The number of these corporations again increased tremendously after the bank failures of 1930 and after. In 1930 and 1931, special efforts were made to relieve the banking situation in agricultural areas by encouraging the organization of agricultural credit corporations. In these two years 200 new corporations were organized.[1] Production loans are chiefly confined to the cotton and

[1] With the failure of such a large number of banks, the demand for production credit became so pressing that a new body called the Crop Production Loan Office was erected in the Department of Agriculture, which we shall discuss later.

tobacco sections of the south-east, the cotton areas of California and the south-west, the sugar cane districts of Louisiana, the rice areas of Louisiana and Arkansas and the trucking and fruit sections of Florida, New England and the north-east. No reliable and accurate data are available regarding the distribution of crop production loans between various commodities, but the following statistics compiled by Baird regarding the distribution of such loans in 1929 can be taken as a fair sample.[1]

DISTRIBUTION OF LOANS

| Commodity | Loan in Dollars | Percentage Distributions |
|---|---|---|
| Cotton and tobacco | 12,700,000 | 64·5 |
| Sugar cane | 2,400,000 | 12·2 |
| Rice | 2,200,000 | 11·2 |
| Potatoes | 1,050,000 | 5·3 |
| Fruit and Vegetables | 1,350,000 | 6·8 |
| | 19,700,000 | 100·0 |

**Loans to Co-operative Marketing Associations**

Another important object of the Agricultural Credits Act of 1923 was to provide direct credit to the farmers' co-operative marketing associations. These associations did not get adequate credit from the commercial banks, which generally refused to accommodate them to any large extent owing to the serious risks that were involved in financing associations which had no capital stock and were dealing with commodities whose prices were very unstable. Moreover, many of these associations were newly organized bodies, and had not demonstrated their commercial ability. The authors of the Agricultural Credits Act sought to foster these institutions by linking them with the federal intermediate credit banks, and by allowing them direct discount privileges. This Act gave a great impetus to co-operative marketing. Its chief contribution was that it demonstrated

[1] Baird. *Op. cit.*, page 173.

that loans to co-operative marketing associations, if advanced with proper precautions, were perfectly safe; and this was realized by the commercial banks which now provide a large part of the funds to finance co-operative marketing associations. Local banks, which were once reluctant to advance money to these associations, are now often anxious to develop business with successful associations. Some of these associations have grown into huge national bodies, doing business in extensive areas, with a turnover of several millions, and getting financial accommodation from New York banks. Besides furnishing many other indirect advantages, the federal intermediate credit banks have provided a considerable amount of direct funds to the co-operative marketing associations. During 1932 the federal intermediate credit banks extended credit to co-operative marketing associations in the aggregate amount of $89,245,114.[1]

This represents about 37.1 per cent. of the total advances made by the federal intermediate credit banks. In the earlier years this figure had reached 79.2 per cent. There are many who are disappointed at the value of these loans, as they expected that the federal intermediate credit banks would become the primary source of credit for marketing purposes. Commercial banks have become more eager to finance co-operative marketing associations; and the associations find it easier to deal with the commercial banks than with the federal intermediate credit banks.

The federal intermediate banks are prohibited by law from advancing more than 75 per cent. of the market value of commodities, and, in practice, they advance considerably less. On the contrary, the commercial banks have sometimes advanced even up to 90 and, in some cases, up to 95 per cent. Preference for commercial banks is based upon the claims of convenience as well as upon the advantages of small margins. The federal intermediate credit banks have been accused of too much red tape, and unnecessary technicalities and delays in the granting of loans. In spite of all these complaints, some of which concern practices which are

[1] Report F.F.L.B., 1932, page 38.

necessary to protect both the banks and the co-operative associations, the federal intermediate credit banks have been a great source of help to the co-operative marketing associations.

### Total Loans Made by the Federal Intermediate Credit Banks

The total loans made to co-operative marketing associations and loans to, and discounts for, financing institutions during 1932 by the twelve federal intermediate credit banks was $240,822,765.[1] The total number of institutions served by these banks from the date of organization to 31st December, 1923, was 1065. During the year 1932 they discounted paper for 430 new institutions which had no previous connexion with these banks. During these years of depression these banks had been especially helpful to farmers and stockmen who were not able to get any credit accommodation through ordinary sources as many banks had failed, and there was financial stringency, especially in the agricultural districts. But they were unable to help those corporations and banks which did not fulfil the requirements for being eligible for rediscount. This deficiency has been temporarily met by the organization of the Reconstruction Finance Corporation, the activities of which are described elsewhere.

### Capital of the Federal Intermediate Credit Banks

The Agricultural Credits Act of 1923 provided that the Secretary of the Treasury should subscribe 5 million dollars for each bank. The total of 60 million dollars was immediately subscribed by the Treasury, of which half was paid up and the rest was liable to be called on thirty days' notice. Of this two millions has been called up by two banks.

### Debentures

Besides the funds provided by the Secretary of the Treasury, as the subscribed capital, the federal intermediate credit banks obtain a major proportion of their funds by issuing debentures.

[1] Report F.F.L.B., 1932, page 39.

During 1932 the banks sold debentures aggregating \$1,226,705,000, of which only \$72,270,000 were outstanding on 31st December, 1932.[1] The interest rate which these banks had to pay on their debentures varied from time to time according to the financial condition of the market. They paid only 2½ per cent. for their debentures issued early in January, 1931, while they had to pay as high a rate as 5 per cent. for debentures issued in January and February of 1932. In addition to their right to issue debentures, the federal intermediate credit banks have also the right to borrow from the federal reserve banks, and this gives the system more elasticity. When the short-term money market is more stringent and the rates are higher they can rediscount with the federal reserve banks, and hence can get temporary funds more reasonably. The federal reserve banks are also empowered to purchase and sell in the open market the acceptances of federal intermediate credit banks. In brief, the Agricultural Credits Act made ample provisions for the financing of federal intermediate credit banks at reasonable rates of interest.

### Condition of the Banks

The condition of the banks, as revealed from the statistics compiled by the federal farm loan board in its annual report for the year 1932, show that at the end of the year ten banks had a combined surplus aggregating \$2,341,904, whilst reserve for contingencies amounted to \$2,350,842.

The banks at Columbia and Berkeley had a deficit of \$623,738 and \$1,902,914 respectively. Then the net surplus and reserves for contingencies for the twelve banks, aggregated \$2,166,094. The earnings of the twelve banks for 1932 amounted to \$1,293,232.

### Critical Estimate of the Federal Intermediate Credit System

In the foregoing pages we have given an outline of the work done by the federal intermediate credit banks, and now we are in a position to make a critical survey of the

[1] Report F.F.L.B., 1932, page 39.

system as a whole. When the Agricultural Credits Act was passed in 1923, various Senators and Representatives freely admitted that "They did not know what the significance of this legislation would be. The political exigencies of the moment demanded some sort of rural credit legislation, and as no agreement could be secured as to what was needed, Congress in an attempt to please factions passed practically every bill that was before it."[1] Some parties pinned extravagant hopes to the new system, while others had wild fears, and condemned the system as practically unworkable and financially unsound. The twelve years' working of the system and the results obtained amply justify its establishment, although both the optimists and the pessimists have been disappointed. It has neither come up to the expectations of those who extravagantly hoped that it would cure all the ills of agriculture, nor has it shown any sign of fatal weakness which would doom it to failure.

**Production Credit**

The necessity for production credit cannot be denied, and it is a fact that the then existing financial institutions were not adequately meeting that demand. But the term "intermediate credit" seems rather misleading, or, to be more accurate, rather loose. There is no rigid division between short-term and intermediate credit, but the one merges into the other. It would be better to speak of "production credit." Intermediate credit banks were organized to provide an important source of credit which was defined as "credit extending from six months to three years." But the working experience of the banks has shown that the restriction of six months was hampering, especially, short-time marketing operations. Consequently, the Act was amended in 1930. The six months' restriction was removed, and the banks were simply enabled to provide production credit up to three years.

**Stimulus to Co-operative Marketing**

These banks have been of great service to agriculture, the

[1] Baird. *Op. cit.*, page 82.

live-stock industries, and co-operative marketing associations, both directly and indirectly. They serve as useful intermediaries between borrowers and investors. They attract funds from areas where they are in excess to those agricultural regions which are distant from financial centres. Although the direct amount of credit provided by these banks has not been as great as some expected, nevertheless they have undoubtedly exercised a great moral influence in connecting the farmers with the financial resources of the country.

The mechanism through which the financial sources of the country have been tapped directly is the issuing of debentures which are standardized negotiable instruments. These instruments are perfectly safe, as they represent a collateral security adequately examined by experts. As the federal land banks have done great service to farmers by standardizing their long-term paper, so the intermediate banks have done them great service by standardizing their short-term paper. They have become a reliable intermediary between borrowers and lenders, and through their channels the funds flow from individual investors to remote farmers. They have given a great impetus to co-operative marketing by recognizing their paper as agricultural paper. "Orderly marketing is the foundation of the co-operative selling of farm products, and success in orderly marketing depends in large measure upon proper financing. By taking care of credits with maturities of from six months to three years, the intermediate credit system makes it safer and easier for the commercial banks to provide adequate short-term credits. Co-operative societies report that they have found commercial banks willing to grant ample short-term credit when they make proper arrangements for their longer term credit through the federal intermediate credit banks. Thus, the moral assistance rendered to the co-operatives by this system has been of greater importance than that rendered by the actual advances."[1]

There is no doubt that the commercial banks have learnt to finance co-operative marketing through the

[1] Report F.F.L.B., 1925.

functioning of the federal intermediate credit banks, and the co-operative associations have derived immense advantage, but lately the federal intermediate credit banks have not been able to keep pace in financing co-operative marketing with the commercial banks.

The Act allows them to advance up to 75 per cent. of the estimated value, but, in practice, the banks have not made advances to this extent. There is no reason why they should not be able to advance up to at least 75 per cent., provided they take proper safeguards. Co-operative societies in many cases have been reluctant to borrow money from the federal intermediate credit banks owing to the excessive red tape involved in their lending operations. The lower rates of interest charged by the federal intermediate credit banks have been often counter-balanced by additional expenses and supplementary charges, such as custodian fees and charges which arise where the banks take some special precautionary measures. These additional charges practically offset the favourable nominal interest rates charged by the federal intermediate credit banks. There is also the general complaint against the federal intermediate credit banks that they insist on many unnecessary technicalities, which involve much delay before loans can be obtained. The banks, however, have not been blind to these criticisms, and they are trying to meet the situation as far as possible consistently with safety. The difficulties which these banks had to face in financing the co-operative marketing associations, and their failure to render the maximum service to the co-operative associations, are due to the fact that the Agricultural Credits Act was passed before the financing of co-operative marketing associations was developed, and before anyone was in a position to know their requirements. It is gratifying to note that considerable progress has been made in overcoming the difficulty.

**Help to the Live-stock Industry**

One of the chief causes which led to the passing of the Agricultural Credits Act was the desperate plight of the cattle industry, and its sore need for adequate credit facilities

for reasonable periods. The length of the period for which loans are required by the live-stock industry is relatively great owing to the inherent conditions of this industry. It takes a longer time to raise and fatten live-stock than to raise and cultivate any agricultural crop. It is very disappointing to note here that the originally proposed institutions—the national agricultural credit corporations —which were supposed to solve all the credit problems of the live-stock industry have been a complete failure. The cattle industry had to depend upon those institutions—the federal intermediate credit banks and state agricultural credit corporations—the creation of which was very sternly opposed by the representatives of the live-stock industry. And it was this opposition which led to the passing of a heterogeneous measure. If the system has failed to provide all the reasonable credit needs of the live-stock industry, the responsibility lies on the shoulders of those who advocated the creation of national agricultural credit corporations. However, in spite of its limitations, the system has been of immense help to the live-stock industry. "The federal intermediate credit system has been very beneficial to stockmen of the west where the resources of the commercial banks are too small to enable them to extend the kind of credit needed by the live-stock purchasers. In the past these stockmen have depended largely upon loan companies which rediscounted with banks in the larger cities. Ample credit was granted in normal times, but, during periods when deposits decreased, new loans or renewals were frequently denied, and borrowers forced to pay excessive rates or sell valuable breeding herds or immature live-stock on a declining market. This resulted in disorderly marketing, wide fluctuations in values, and heavy losses to the industry. The intermediate credit system now provides dependable rediscount facilities through which sound loan companies and banks may at all times place good live-stock paper."[1]

The complaint of the live-stock industry is that the loans advanced by the federal intermediate credit banks are not for adequate periods. Although the Act allows these banks

[1] Report F.F.L.B., 1925.

to advance loans up to three years, in practice their live-stock loans run from six months to one year. The credit status of the borrowers is re-examined after the lapse of these intervals and loans are renewed. This involves the same uncertainty which was complained of about the loans of the commercial banks.

**Defects in State Agricultural Credit Corporations**

The federal intermediate credit banks have also been handicapped in making loans to the live-stock industry, owing to the heterogeneous nature of state agricultural credit corporations, which are organized under different laws in the forty-eight states of the Union. Many weak and irresponsible corporations have sprung up and their paper does not present adequate security. Many interested persons have organized these associations without any due regard to their responsibility, and their main purpose has been exploitation. This defect is due to the fact that at present a charter can be obtained without showing any reasons for the economic necessity of such corporations in the community. "This multiplication of facilities not only perpetuates the worst evils of our system of small independent banks but necessitates the expense of examining and scrutinizing the paper of hundreds of short-lived corporations. These structural defects must be remedied before the intermediate credit banks can function effectively as a central discount system for agriculture.[1]

"Another defect in the corporations is that they are free to form alliances with all kinds of enterprises. The results of such alliances are very undesirable. It should be the duty of the federal intermediate credit banks to refuse accommodation to any such corporations. It should be the principal function of the credit corporations to provide credit to their customers at as reasonable a rate of interest as possible. The rates charged by these corporations have been rather excessive. At first the federal intermediate credit banks allowed them a margin of 1½ per cent. over their discount rate, but owing to protests from financial institutions this

[1] Baird. *Op. cit.*, page 319.

has been gradually raised to 2–2½, and finally 3 per cent. This great gap is crushing the agricultural industry. It sometimes means a rate of interest 100 per cent. higher than that paid by the federal intermediate credit banks on their debentures. This is too wide a margin. But unfortunately the corporations, and other financial institutions, have complained that even this does not leave them sufficient profits. Some centralized system of distribution must be devised to lower this margin. The only alternative available is that the federal intermediate credit banks should give up their passive role and should organize themselves fully to exploit the field which lies within their scope. They have not competed with the commercial banks and have been rather over-anxious not to impair the "legitimate profits which bankers should receive from their business."

This attitude of the farm loan board has been condemned by the agricultural leaders who maintain that service to agriculture should be the chief consideration of the federal farm loan board, and this is incompatible with regard to the legitimate profits of the banks.

The liability which the Government has assumed in the form of subscription of capital, and the exemption of the federal intermediate credit bonds from taxation, has been a matter of considerable controversy and criticism.

In spite of all their limitations the federal intermediate credit banks have provided a very desirable source of credit to the agricultural and live-stock industries, and have given a great stimulus and much financial help to the co-operative marketing associations.

# CHAPTER V

## THE FEDERAL FARM BOARD

### Marketing Credit

THOSE who believed that credit would cure all the ills of agriculture were soon disillusioned when they found out to their dismay that credit alone would not cure the chronic ills from which agriculture was suffering. Their activities were soon diverted into other directions, and they started a campaign for the stabilization of prices and general relief for agriculture. It would take too long to describe these activities here and they do not fall within the scope of this treatise.[1] Many bills were introduced in Congress and there were many proposals and counter-proposals but no definite agreement was possible. The Administration felt that there was an absolute necessity to do something to improve the situation. The Secretary of Agriculture remarked in his Annual Report for the year 1928, that "the nation must accept its responsibility in seeking and applying sound and adequate relief" and "agriculture is entitled to practical Government help in rebuilding its fortunes on a firm and permanent foundation. For these the nation cannot escape its just share of responsibility in that its officials advocated overwhelming expansion of production during the War."

In 1929 Congress passed the Agricultural Marketing Bill which became an Act on 15th June, 1929, when the President signed it. This Act embodied the views of the Administration and has the following purposes—[2]

1. To promote the effective merchandising of agricultural commodities in the interstate and foreign commerce so that the industry of agriculture will be placed on a basis of economic equality with other industries.

2. To protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural

[1] See Black, J. D., *Agricultural Reform in U.S.A.*; and Campbell, P., *American Agricultural Policy and Annals.* Farm Relief Numbers, March, 1929.

[2] Agricultural Marketing Act. Public Document No. 10: 71st Congress.

commodities and their food products by minimizing speculation and by preventing inefficient and wasteful methods of distribution.

3. To encourage the organization of producers into effective associations or corporations for greater unity of effort in marketing, by promoting the establishment and financing of farm marketing systems of producer owned and producer controlled co-operative associations and other agencies.

4. To aid in preventing and controlling surpluses in any agricultural commodity, through orderly production and distribution, so as to maintain advantageous domestic markets and prevent such surpluses from causing undue and excessive fluctuations or depression in prices for the commodity.

**The Federal Farm Board**

The management of the Act was entrusted to a body consisting of eight members with the Secretary of Agriculture ex-officio, and this body was named the Federal Farm Board.[1] The President, in appointing the members of the Board, remarked, "By your appointment I invest you with responsibility, authority and resources such as have never been conferred by our Government in assistance to any industry."

**Organization and Powers of the Federal Farm Board**

Besides carrying out the full provisions of the Act as described in its preamble, viz. "to promote the effective merchandising of agricultural commodities in interstate and foreign commerce so that the industry of agriculture will be placed on a basis of economic equality with other industries," the Board was especially authorized and directed to use the following powers—

1. To promote education in the principles and practices

[1] The Federal Farm Board must be carefully distinguished from the Federal Farm Loan Board which manages the Federal Land Banks and Federal Intermediate Credit Banks, and has no connexion with the Federal Farm Board which manages the Marketing Act. Both these Boards have been abolished now. For details, see Chapter VII.

of co-operative marketing of agricultural commodities and their food products.

2. To encourage the organization, improvement in methods, and development of effective co-operative associations.

3. To keep advised from any available sources, and make reports as to crop prices, experiences, prospects, supply and demand, at home and abroad.

4. To investigate conditions of over-production of agricultural commodities and advise as to the prevention of such over-production.

5. To make investigations and reports upon the following: Land utilization for agricultural purposes; reduction of the acreage of unprofitable lands in cultivation; methods of developing by-products of all new uses for agricultural commodities.

In order to carry on these operations, "in addition to the administrative division, five major divisions were eventually set up in the following order: Legal, information, loan, co-operative marketing, and economics."[1]

**The Revolving or Loan Fund**

In order to provide funds to finance co-operative marketing associations and carry out the provisions of The Agricultural Marketing Act of 1929, Congress apportioned $500 millions in the form of a revolving fund to be used for the following purposes—

1. The effective marketing of agricultural commodities and their food products.

2. The construction or acquisition by purchase or lease of physical marketing facilities for preparing, handling, storing, processing, or merchandising agricultural commodities or their food products.

3. The formation of clearing house associations.

4. Extending the membership of co-operative associations applying for loans by educating the producers of the commodity handled by the association in the advantages of the co-operative marketing of that commodity.

5. Enabling the co-operative associations applying for

[1] First Annual Report of Federal Farm Board, 30th June, 1930, page 53.

the loan to advance to their members a greater share of the market price of the commodity delivered to the association than is practicable under other credit facilities.

The Board deals with farmers only indirectly through local or regional co-operative marketing associations that comply with the condition of the Capper-Volstead Act.[1] The principal provisions of this Act are—

1. That the members or stockholders shall be agricultural producers;
2. That the association must be operated for the mutual benefit of its members;
3. That the association shall be engaged in interstate commerce;
4. That the association shall not do more business with non-members than with members;
5. The association must conform to one of the following conditions: either the principle of one vote per member or limitation of dividends on capital stock to 8 per cent.

The policy of lending through such authorized co-operative societies is in conformity with the system of production organizations controlled and owned by the producers, which was emphasized in the Act. It has been the policy of the federal farm board to encourage the formation of central commodity marketing organizations, and to lend through them instead of lending directly to local associations. Where no such central association exists, the Board advances money directly to local co-operative associations. The three prominent central associations are the National Wool Marketing Corporation, the Farmers' National Grain Corporation, and the American Cotton Co-operative Association.

### The Advisory Commodity Committee

In order to encourage the orderly marketing of agricultural products, and to get expert advice on the marketing of various products, the Board is authorized to form advisory commodity committees consisting of seven members,

[1] This Act was passed in 1922. For details, see Public Document No. 146, of 67th Congress.

selected by the co-operative associations on the invitation of the Board, to represent commodities before the Board. Any farm product, or group of products, whose use and marketing methods are similar are termed "a commodity." Several commodity boards representing various commodities were soon formed.

**Stabilization Corporations**

In order to enable the farmers to reap fair profits from their products, the stabilization of agricultural prices is a very necessary factor and its importance is admitted by all. But how this stabilization should be brought about has been a subject of stormy controversy, not only in the United States but throughout the leading countries of the globe. From 1923 to 1929 various conflicting bills were introduced into Congress, but they were all rejected on one ground or another. The Agricultural Marketing Act has been severely criticized especially for this provision of stabilization of prices. According to the interpretation of the federal farm board the process of stabilization of agricultural prices is provided for by two distinct measures. They have been called ordinary, and extraordinary. The ordinary measure is to increase the effectiveness of co-operative marketing organization, to improve their financial position, and to centralize their operations so as to get the maximum benefit of co-operation.

The extraordinary or emergency measures provide for the setting up of stabilization corporations to stabilize agricultural prices, by buying and taking off the market any surpluses which are unduly lowering prices and glutting the market. The Board hoped that such corporations would be able to hold these surpluses till market conditions became normal. The losses incurred by these corporations were to be made good from the revolving fund. It was confidently hoped that the stabilization corporations would limit fluctuations by cushioning the shocks from severe fluctuations. This "radical" measure was considered by the Board as absolutely necessary for the stabilization of agricultural prices.

**Working of the Federal Farm Board**

In studying the working of the farm board we shall mainly deal with the credit side of the problem which is more important for the purpose of this treatise. The study of the main provisions of the Agricultural Marketing Act has shown that there was an important provision for the supply of marketing credit. This would have resulted in bringing the Board into competition with the federal intermediate credit banks. But the farm board "has consistently sought to avoid duplication of work already being carried on by other Governmental agencies and has exercised utmost economy."[1] Regarding the provision of marketing credit the farm board has evolved a "fairly definite division of labour between the farm board and the intermediate credit system in which the former assumes the task of making loans not acceptable to commercial banking institutions, or not eligible for the intermediate credit banks, and to some extent relieves the latter of any pressure to extend loans which do not measure up to conservative banking standards."[2] This policy is quite consistent with the spirit of the Marketing Act. The Board instead of being a rival and competing institution acts as a complementary body to the federal intermediate credit banks. It is possible for the Board to take risks in making such advances, for it has been set up to develop the spirit of co-operation and to help the farmers and has no responsibility to public investors in regard to its funds. The supplementary commodity loans provided by the farm board permit co-operatives to borrow a larger percentage of the market value of their commodities, in addition to the loans taken from either the commercial or the intermediate banks. "In this way the revolving fund has made possible operations of a much greater extent than might appear from the amounts of money actually loaned to co-operative associations." During the first year of its operations the Board lent 101.8 million dollars for the purpose of facilitating marketing operations, aiding and extending co-operative organizations, and supplementing

[1] First Annual Report of the Federal Farm Board, 1929, page 53.
[2] Baird and Benner.

commodity loans. Of this amount $23 million were repaid, leaving $78.8 million outstanding on 30th June, 1930. In the second year it advanced $154 million, of which $123.4 million were repaid, and $109.5 million were outstanding. During the third year it advanced $101 million of which $40.5 million have been repaid and $170.1 million were outstanding on 30th June, 1932.[1] "Of the total amount advanced up till June 30, 1932 only $58,211 had been advanced for education purposes, $151.4 million for 'effective merchandising,' $14.9 million for facility loans, and $160.8 million for credit on commodities supplemental to these made by banking institutions."[2]

### Facility Loans

Facility loans have been made for acquiring permanent facilities for storing agricultural commodities. Before the farm board came into operation co-operatives had no facilities to acquire loans for construction or acquiring permanent facilities. They had often to face difficulties in getting funds for their working operations as the federal intermediate credit banks were not allowed to make loans for such purposes. The farm board has remedied this defect. In order to acquire permanent facilities the Board has advanced $14.9 million. Though this is not a big amount it has been of tremendous use. These are long-term loans and are made on an amortization basis to be repaid within twenty years.

### Rate of Interest

The Board is prohibited from charging a rate of interest higher than 4 per cent. In actual practice the rate has been lower than 3 per cent.

### Price Stabilization

Owing to disastrous falls in the prices of agricultural products, and the desperate condition of the farmers, the Board was compelled to take extraordinary measures, and

[1] Loans to stabilization Corporations are not included in this. For details, see Annual Reports of the Federal Farm Board for the years 1930–32.
[2] Baird and Benner. *Op. cit.*, page 352.

it became absolutely necessary for the Board to protect farmers from falling into, so to speak, a bottomless pit. The situation in regard to wheat and cotton became very dangerous. The prices of these two commodities fell to absurd levels. In order to relieve the position the Board recognized the Wheat Stabilization Corporation and the Cotton Stabilization Corporation. These two bodies were started to stabilize the prices of wheat and cotton by purchasing wheat and cotton from the farmers, at prices higher than those prevailing in the markets of the world, and withholding them in the pious hope of selling in better days to come.[1]

**Advances to Wheat Stabilization Corporations**

The Board has suffered tremendous losses through its stabilization operations. On 30th June, 1932, the Grain Stabilization Corporation owed the revolving fund $199,905,284. It also owed commercial banks and federal intermediate credit banks $31,481,781.[2]

**Advances to Cotton Stabilization Corporation**

On 31st July, 1932, the Cotton Stabilization Corporation owned 1,308,732 bales of cotton. The loans on this cotton, including $102,042,735 from the farm board and $22,008,562 from intermediate and commercial banks, totalled $124,051,298. Apart from cotton held and these loans, the other liabilities of the Corporation exceeded its other assets by $3,524,091. The total amount invested in cotton stabilization at that date was thus $127,575,389. The stocks of cotton were worth $42,523,912 at the market prices of 31st July, 1932, or $85,051,477 less than the sums invested in cotton stabilization.[3]

**Critical Estimate of the Federal Farm Board**

The Agricultural Marketing Act has been described as "one of the most radical laws ever enacted in the United

[1] For full account, see Annual Reports of the Federal Farm Board for the years 1930–32.
[2] Third Annual Report, Federal Farm Board, page 70.
[3] Third Annual Report, Federal Farm Board, page 77.

States, because it provides Government aid and subsidy in the form of hundreds of millions of dollars for the re-organization of the machinery of marketing of all kinds of agricultural products."[1] The most objectional feature of the Act was the stabilization of agricultural prices through the extraordinary measures of stabilization corporations.[2] Experiments in stabilization of prices through artificial control have often failed miserably in various parts of the globe. Japan tried to fix the price of silk. In spite of its efforts the price fell from 16 cents a pound in 1920 to 2 cents in 1930. Japan's efforts were nullified through increase of production in other countries. The Stevenson rubber restriction plan shared the same fate. Before the restrictions came into operation rubber was selling at 20 cents a pound, after the restrictions its price fell to 8 cents a pound. Brazil and Cuba had the same bitter experience in regard to coffee and sugar respectively. The buying of surpluses at prices higher than those prevailing in the markets of the world leads to complications, and instead of any appreciable decline in production the trend is always in the reverse direction, and the psychological effect of hoarded surpluses further depresses prices. The failure of the farm board to stabilize the prices of wheat and cotton through the stabilization corporations clearly points out the dangers of trying to raise prices through artificial measures, which ignore the factors of supply and final consumer demand. The inevitable laws of supply and demand must not be forgotten. No programme of stabilization of prices is likely to succeed ultimately unless the supply is adjusted to demand, or efforts are made to increase the demand. The experiences of the Wheat and Cotton Stabilization Corporations have been very bitter. Before the Wheat Stabilization Corporation began to carry on its pegging activities the price of wheat was $1.18 in Chicago. Thirteen months after the operations of the Corporation the price

[1] Memorandum by the Standard Statistics Co. of New York, published in the *Economic Journal*, March, 1930.

[2] By an executive order the Federal Farm Board was abolished in 1933, and some of its functions were entrusted to the Farm Credit Administration.

of wheat fell to 73 cents. Cotton was selling at 18 cents a pound before the pegging operations began. After twelve months' pegging the price fell to 8 cents a pound. "It is our opinion that it had a definitely detrimental effect on exports of American cotton. It created a holding movement. A holding movement dams up, or increases the supply, which is the direct cause of decline in prices."[1]

**Credit Functions of the Farm Board**

Most of the credit functions of the farm board seem to be unnecessary, especially when there are other federal institutions which can cater for this business. If need for further sound credit arises, there is no reason why those Acts should not be amended.

As regards the supplementary loans provided to the co-operative societies, there seems little justification for them. "The presence of the farm board as a second source of credit may encourage the intermediate credit banks to restrict their loans to co-operatives more than they otherwise would do. If the farm board is willing to make the more hazardous commitments and to accept a secondary lien on the commodities as security, the intermediate credit banks are able to finance the primary requirements of the co-operatives while allowing the farm board to assume the major risks of price declines. If this policy is followed co-operatives are justified in their complaints that the intermediate credit banks are fair weather creditors just as are commercial banks. No satisfactory financial relationship between the intermediate credit banks and co-operatives can be developed under such circumstances."[2]

The proper function of such a board seems to be as an advisory and informative body, which should promote better relations between the farmer and the middleman.

[1] *Cotton Review*, Oct., 1930. [2] Baird and Benner. *Op. cit.*, page 351.

# CHAPTER VI

## THE RECONSTRUCTION FINANCE CORPORATION

In the previous chapter, we studied the failure of stabilization corporations to stablize the prices of two of the most important staple commodities of the United States—wheat and cotton—and the desperate condition of the agricultural industry which was caused through the fall of prices to absurdly low levels. This situation was further accentuated by depressed conditions in industry. Factories were curtailing production and unemployment was increasing at a very rapid rate, which decreased the purchasing power of a large class of workers who were the chief consumers of agricultural products at home. A general desire to safeguard the interests of their depositors led the banks to press their claims for repayment of loans which led to a shrinking of credit, and owing to frozen assets many banks had to close their doors. Bank failures continued to occur with an alarming increase from 1930 onwards.

At the end of 1931 the whole country was threatened with financial ruin. Increasing pressure was brought on the Administration to take some bold step to save the country from this disaster. As a result, on 22nd January, 1932, the Reconstruction Finance Corporation was created to provide "emergency financing facilities for financial institutions, to aid in financing agriculture, commerce and industry, and for other purposes."[1] The scope and powers of the Corporation were extended by subsequent legislation.[2]

### Funds of the Reconstruction Finance Corporation

Capital Stock. The capital stock of the Corporation was fixed by Section 2 of the Reconstruction Finance Corporation Act at $500,000,000, all of which was subscribed and paid in by the Secretary of the Treasury.

[1] Reconstruction Finance Corporation Act, 22nd January, 1932. Public Document No. 2, 72nd Congress, page 1.
[2] Circular No. 4, Reconstruction Finance Corporation.

Issue of Notes, Debentures and Bonds. The Reconstruction Finance Corporation Act, as amended by the Relief and Reconstruction Act of 1932, authorized the Corporation, with the approval of the Secretary of the Treasury, to issue notes, debentures and bonds.

Management and Organization. The Corporation was established on 2nd February, 1932, to continue its operations for a period of ten years unless sooner dissolved by an Act of Congress. The management of the Corporation was entrusted to a board of directors consisting of the Secretary of the Treasury and six other directors appointed by the President with the advice and consent of the Senate.

The Corporation functions through its principal office at Washington, and has established loan agencies in cities throughout the United States. The federal reserve banks are authorized to act as depositors and fiscal agents for the Corporation. The proceeds of loans are generally distributed through the federal reserve banks.

The activities of the Corporation are very varied as is clear from the preamble. Here we shall describe only those activities which deal directly with providing credit for agriculture.

### Regional Agricultural Credit Corporation

The Emergency Relief and Reconstruction Act of 1932 authorized the Reconstruction Finance Corporation to establish, as a temporary measure, twelve Regional Agricultural Credit Corporations in each of the twelve federal land bank districts, to make loans or advances to farmers and stockmen, the proceeds of which were to be used for agricultural purposes. The Reconstruction Finance Corporation was required to provide each regional corporation with a paid-in capital of $3,000,000 and has since added $8,500,000 to the capital of five corporations, bringing the total amount invested to $44,550,000. In addition to their capital, the loan funds of these regional corporations are obtained by rediscounting with the Reconstruction Finance Corporation, the federal reserve banks, and the federal intermediate credit banks.

The necessity of organizing these regional corporations was due to the shrinkage of credit in country districts, owing to the failure of large numbers of banks and the tightening of credit by others. The farmer was placed in a very awkward position. He was pressed to liquidate his debts and was denied any further accommodation. Consequently, production-credit became very scarce. In order to help such needy farmers the Regional Agricultural Credit Corporations were organized in September, 1932.

**Loan Policy of the Regional Agricultural Credit Corporations**

The law requires that all loans made by the Regional Agricultural Credit Corporations must be fully and adequately secured. The loans made by these Corporations are of a short-term nature, and the borrower is expected to liquidate them as soon as circumstances permit. For instance, loans for breeding and pasture are made for one year and "feeder loans" (loans advanced to buy fodder for cattle) for only eight months.

**Loans Made by These Corporations**

From 14th October, 1933, to 31st March, 1934, more than $300,000,000 was loaned by these Corporations. These Corporations had no local organizations for handling loans. Loans were made directly to landowners. The interest rate charged varied from 5½ to 6½ per cent. and the average amount of each loan for this period was $1502.

These organizations, as already pointed out, were established as temporary emergency agencies, and by July, 1934, the process of their liquidation was well under way.

**Loans under Other Acts made by the Reconstruction Finance Corporation**[1]

LOANS TO REDUCE AND REFINANCE THE OUTSTANDING INDEBTEDNESS OF AGRICULTURAL IMPROVEMENT DISTRICTS FOR THE BENEFIT OF FARMERS. Section 36 of the Emergency Farm Mortgage Act authorizes the Corporation to make

[1] For details, see Reconstruction Finance Corporation Circular, No. 4, page 5.

loans not to exceed an aggregate amount of $50,000,000, to or for the benefit of drainage of districts. These loans are made to such districts for projects devoted chiefly to the improvement of lands for agricultural purposes, to enable them to reduce or refinance their outstanding indebtedness incurred in connexion with any such projects. These loans are of a long-term nature, and are made for periods extending up to forty years.

LOANS FOR THE EXPORTATION OF AGRICULTURAL OR OTHER PRODUCTS. Under Section 5*a* of the Reconstruction Finance Corporation Act the Corporation is authorized to accept drafts or bills of exchange drawn upon it having a maturity of not more than twelve months, which grew out of transactions involving the exportation of agricultural or other products. Under Section 201 (*c*) of the Emergency Relief and Reconstruction Act of 1932, the Corporation is authorized to make loans for the purpose of financing sales of surpluses of agricultural products in the markets of foreign countries in which such sales cannot be financed in the normal course of commerce.

LOANS FOR THE CARRYING AND ORDERLY MARKETING OF AGRICULTURAL COMMODITIES AND LIVE-STOCK. Under Section 201 (*d*) of the Emergency Relief and Reconstruction Act of 1932, the Corporation is authorized, until 1st February, 1935, to make loans to bona fide institutions, for the purpose of enabling them to finance the carrying and orderly marketing of agricultural commodities and live-stock. All such loans are required to be fully and adequately secured. The Corporation is also authorized to make certain loans of such a nature under the Agricultural Adjustment Act, the discussion of which lies outside the scope of this treatise.

**Allocation of Funds to Land Bank Commissioner**

The Corporation is authorized and directed under Section 30 (*a*) of the Emergency Farm Mortgage Act of 1933 to make available to the Land Bank Commissioner[1] the sum of $100,000,000, to be used for a period not exceeding two

[1] More fully discussed in the next chapter.

years from the date of enactment of such Act, i.e. 12th May, 1933, for the purpose of making loans to joint-stock land banks.

Under Section 32 of the same Act the Corporation is authorized and directed also to allocate and make available to the Land Bank Commissioner the sum of $200,000,000 to be used for the purpose of making loans to farmers.

### Allocation of Funds to the Secretary of Agriculture

Under Section 2 of the Reconstruction Finance Corporation Act, the Corporation was authorized to allocate and make available to the Secretary of Agriculture a certain part of its funds in order to enable him to make loans to farmers for crop production purposes during 1932, By an Act of Congress approved 19th February, 1933, the authority of the Secretary of Agriculture was extended with respect to the use of funds allocated and made available to him by the Reconstruction Finance Corporation, so as to enable him to make loans to farmers during 1935. The disposal of funds allocated under the foregoing provisions of law for the purpose of making loans to farmers was transferred from the Secretary of Agriculture to the Farm Credit Administration by the executive order of 27th March, 1933, effective 27th May, 1933, and to the Governor of the Farm Credit Administration by Section 5 of the Farm Credit Act.

### Early History of the Crop and Seed Loans[1]

These loans owe their origin to drought. The Crop Production and Seed Loan Offices were first organized in 1921, when Congress apportioned loans to farmers for the purchase of seed in the drought-stricken areas. The first apportionment of $2,000,000 was made in 1921, and a similar one for $1,500,000 in 1922.

In 1924 $1,000,000 were loaned in the drought-stricken area of New Mexico for the purpose of feed as well as seed. In 1926 President Coolidge authorized the Secretary of

[1] For details, see Myers, W. I., "Farm Credit Administration," page 98, *American Institute of Banking.*

Agriculture to make loans to destitute farmers in Florida to buy fertilizers and seeds. Such loans continued from time to time, and their amount continued to increase year by year, until by 1931 such loans became a form of short-term emergency loans.

"During 1921–1930, inclusive, loans were made for five different crop years and totalled $15,194,000. The volume of loans made during 1931–1933 has been close to $60,000,000 each year and the number of farmers has increased from 438,951 in 1931 to 633,583 in 1933."[1]

From the business point of view, the collection of these loans has been far from satisfactory.

[1] Myers. *Op. cit.*, page 99.

# CHAPTER VII

## THE FARM CREDIT ADMINISTRATION

In the foregoing pages, we have studied the operations of various federal agencies which have been providing credit to farmers. A reader is baffled by the cumbersome multiplicity of these institutions. We have noticed that in the beginning of 1933 there were five different federal farm credit agencies which were catering for the credit needs of farmers, without any central co-ordination, and more often than not were competing with each other in providing credit. In 1923 the federal intermediate credit banks were organized to provide so-called intermediate credit, and their management was entrusted to the federal farm loan board which was managing the federal land banks. The crop production and seed loan offices, which were really a legacy of the War period and were under the Secretary of Agriculture, remained under him to provide emergency short-term relief credit. In 1929 the federal farm board was created as an independent agency to provide credit to co-operative associations for marketing purposes, and, finally, in 1932 the Reconstruction Finance Corporation set up Regional Agricultural Credit Corporations to provide production credit.

All these five agencies were deriving funds from the Federal Government in one form or another. The whole capital of the federal intermediate credit banks was subscribed by the Federal Government. The Revolving Fund of $500 million for the federal farm board, which was set up under the provisions of the Agricultural Marketing Act of 1929, was subscribed by the Treasury on behalf of the Federal Government. The funds used by the Crop Production and Seed Loan Offices were provided by special appropriations of Congress, and later from the funds of the Reconstruction Finance Corporation, the entire capital of which was subscribed by the Federal Government. The

major portion of the capital of the federal land banks was subscribed in the beginning by the Federal Government, but was eventually transferred to the National Farm Loan Associations until, at the end of 1931, almost all the capital was transferred to these associations, but the Federal Government had to subscribe again in 1932 when the capital of these banks was increased.

In spite of the fact that the Federal Government had invested a big amount of capital in all these lending agencies and they were under its supervision and control, their administration was widely disintegrated. Owing to this disintegration, and to the absence of any co-ordinating link to harmonize their lending policies, there was great overlapping in their operations, especially in the field of short-term credit. Not only was there duplication of lending agencies, but there were also variations in the rates of interest charged by different institutions. For example, the federal farm board was providing credit at very low rates of interest (average 2.9 per cent.), while the Regional Agricultural Credit Corporations were charging 6½ per cent.

"The farmers were not only confused as to the proper agency from which to obtain the desired loan, but also as to its location. For example, farmers in Northern Mississippi were served by the federal land bank and the federal intermediate credit bank in New Orleans, Louisiana; the Regional Agricultural Credit Corporation at Jackson, Mississippi; and Crop Loan offices at Memphis, Tennessee. On the other hand, Eastern Missouri farmers found all the four agencies in St. Louis, but no two of them in the same building."[1]

When President Roosevelt came to the White House early in March, 1933, he realized this chaotic state of affairs. The agricultural horizon of the country was very dark indeed. The banking crisis of March, 1933, further aggravated the situation. "This crisis brought a reduction of

[1] Address by W. I. Myers, Governor, Farm Credit Administration, delivered during Farm and Home Week, Cornell University, on 14th February, 1934.

nearly 4000, or 20 per cent., in the number of the country's banks.

Aggregate resources decreased by nearly five and a half billion, or 10 per cent., compared with the peak which was $74,000,000,000 in 1930; the resources of the country's banks in June, 1933, decreased to $50,000,000,000, a shrinkage from the peak of $22,700,000,000, or 21 per cent."[1]

Realizing the gravity of the situation, and in order to bring about the co-ordination and centralization of the existing credit agencies, the President issued an Executive Order on 27th March, 1933, which was to be effective two months later. All the existing farm credit agencies were to be consolidated into one organization—The Farm Credit Administration. This Executive Order became effective on 27th May, 1933, when the then existing credit agencies were consolidated under one management, and board or committee management was replaced by individual responsibility. The Governor of the Farm Credit Administration is individually responsible to the President of the United States.

**Organization of the Farm Credit Administration**

The management of the Farm Credit Administration has been entrusted to an executive officer who is called the Governor of the Farm Credit Administration, and is appointed by the President of the United States. He is individually responsible to the President. He is assisted by two deputy governors. In addition to the consolidation of the existing credit agencies, the Farm Credit Administration Act of 1933 provides for two new groups of institutions—Production Credit Corporations and Banks for Co-operatives. These new organizations together with the federal land banks and the federal intermediate credit banks provide under one administration a complete system of agricultural credit.[2]

[1] Report of the Economic Policy Commission of the American Bankers' Association quoted by Ellis Willerd, D., in an address before the Western Farm Economic Association, 21st June, 1934.

[2] See page 1, Farm Credit Act, 1933. Public Document No. 75. 730 Congress.

It was in the mind of President Roosevelt when he made his first executive order after his inauguration, that there were two very urgent ends to be served in the then paralysed basic industry of agriculture. The first was to prevent at once, by every possible means, its complete bankruptcy, which was then threatened. In order to meet this situation the Emergency Farm Mortgage Act was passed in May, 1933[1]. The second, hardly less pressing, was to build a complete, co-ordinated and permanent agricultural credit system which would provide for the farmer all varieties of agricultural credit at all times when he needed them, with a minimum of effort on his part. It was with this idea in view that the two new types of credit agencies were created.

For administrative purposes, the Farm Credit Administration has four permanent divisions—

1. The Land Bank Division.
2. The Co-operative Bank Division.
3. The Intermediate Credit Division.
4. The Production Credit Division.

Each of these divisions is entrusted to a commissioner who is responsible to the Governor for the efficient management of his Division.

The Land Bank Commissioner supervises twelve federal land banks, national farm loan associations, Commissioners' Loans,[2] and joint-stock land banks. The Co-operative Bank Commissioner supervises the newly created central bank for co-operatives, twelve regional banks for co-operatives, and the Revolving Fund of the Agricultural Marketing Act of 1929. He is also responsible for the twelve Regional Agricultural Credit Corporations which are temporary agencies and have no permanent place in the structure of the Farm Credit Administration.

The Intermediate Credit Commissioner supervises twelve federal intermediate credit banks, and also supervises the

[1] Discussed later.
[2] Commissioners' Loans have been authorized by the Emergency Farm Mortgage Act, which is discussed in a later section.

Crop Production and Seed Loan Offices on behalf of the Secretary of Agriculture. Like the Regional Agricultural Credit Corporations, the Crop Production and Seed Loan Offices are temporary agencies, and have no permanent link with the Farm Credit Administration.

The Production Credit Commissioner supervises the newly created twelve Production Credit Corporations, and the Production Credit Associations. The General Council co-ordinates the policies of all the four departments. The following figures gives a complete picture of the organization of the Farm Credit Administration.[1]

## Organization of the Farm Credit Administration, Washington Office

*Farm Credit Administration, Washington Office*

1 GOVERNOR
2 Deputy-Governors
1 General Council

| Land Bank Commissioner | Co-operative Bank Commissioner | Intermediate Credit Commissioner | Production Credit Commissioner |
|---|---|---|---|
| Supervises: 12 Federal Land Banks | Supervises: 1 Central Bank for Co-operatives | Supervises: 12 Federal Intermediate Credit Banks | Supervises: 12 Production Credit Corporations |
| National Farm Loan Associations | 12 Banks for Co-operatives | | Production Credit Associations |
| Commissioner Loans | Agricultural Marketing Act Revolving Fund | | |
| Joint-stock Land Banks | | | |
| 12 Regional Agricultural Credit Corporations | | Crop Production and Seed Loan Offices | |

[1] First Annual Report of the Farm Credit Administration, Washington, 1933.

## TYPICAL ORGANIZATION OF A FARM CREDIT[1] ADMINISTRATION DISTRICT

Farm Credit Administration
12 Districts

Board of Directors

1 General Agent
With President of the 4 Institutions shown immediately below, constituting Advisory Committee

| | | | |
|---|---|---|---|
| Federal Land Bank | Bank for Co-operatives | Federal Intermediate Credit Bank | Production Credit Corporation |
| National Farm Loan Assocn. | | | Production Credit Associations |

**District Farm Credit Administration**

The twelve federal land bank districts have been made the districts of the Farm Credit Administration, and the offices of all departments are located in a single town and in the same building. Their organization follows the pattern of Washington offices. In each district organization, there are four permanent credit institutions—a federal land bank, a federal intermediate credit bank, a Production Credit Corporation and a bank for co-operatives, in addition to local National Farm Loan Associations and Production Credit Associations. Under the new organization these four main credit institutions are under the same board of directors.

There is a single board of directors for all the main credit institutions, which is called the Council of the Farm Credit Administration for the district, and provides for a unified policy. In order to co-ordinate the activities and to avoid the unnecessary duplication of personnel and facilities, the Governor of the Farm Credit Administration appoints an executive officer who is called the General Agent. The General Agent acts with the presidents of the four leading institutions as an advisory committee. The typical organization of a Farm Credit Administration District is illustrated by the above diagram.

[1] First Annual Report of the Farm Credit Administration, 1933.

The organization described above represents the effort of the Roosevelt Administration to provide a co-ordinated co-operative system of agricultural credit to meet the entire range of credit needs for agriculture on a permanent business basis at the lowest possible cost. The consolidation or supervision of existing credit agencies was not enough to provide a permanent system of agricultural credit to cater for all the needs of American farmers. The federal land banks and the federal intermediate credit banks were no doubt very suitable institutions for the new system, but it was not possible to modify the other existing credit agencies to suit it. Consequently, they had to be liquidated and discarded. And in order to complete the system and to provide every type of credit, two new institutions were created. These were the banks for co-operatives, which were established to replace the loan activities of the federal farm board and direct loans to co-operatives by the federal intermediate credit banks; and the Production Credit Corporations which were established to organize and supervise the local organizations through which the short-term credit available from the federal intermediate credit banks could be extended to the individual farmer.

"From the individual farmer's point of view the centralization of administrative control with the consequent simplification of procedure for securing loans will make for more effective and economical credit service than has ever been available to him in the past. The strengthening of existing credit institutions, and the establishment of additional types of permanent lending agencies, provide a complete system of financing agricultural enterprise. In particular, the new machinery for promoting production credit, giving access to the investment markets through rediscounting with the federal intermediate credit banks, is important in view of the lack of adequate commercial banking facilities in many rural areas."[1]

**The Farm Mortgage Situation**

Before we study the operations and working of the four

[1] First Report of the Farm Credit Administration, 1933, page 6.

units of the Farm Credit Administration it is necessary to understand the farm mortgage situation. The total farm debt in the United States on 1st January, 1932, was estimated by the U.S. Department of Agriculture as $12,000,000,000.[1] The farm mortgage debt approximated $8,500,000,000 and the short-term commercial bank loans $2,000,000,000. The remaining $1,500,000,000 was merchant credit and other short-term debt. The latest detailed data on farm mortgage indebtedness is for 1st January, 1930. At that time it was estimated at $9,241,390,000 or two and three-quarter times the 1910 farm mortgage debt. From 1910 to 1928 farm mortgage indebtedness was constantly increasing, but since 1928 it has declined.

Based on the 1910 debt figures as 100, the index for farm mortgage debt in 1920 was 236.6, in 1928 285.2, and in 1930 278.3, and on 1st January, 1932, 256.[2] Most of this debt was incurred when land values had risen to high levels. The total value of farm real estate fell from $66,316,000,000 in 1920 to $30,515,000,000 in March, 1933. The immediate post-War break in prices was enough for any farmer to withstand. But the serious decline in the prices of agricultural products since 1929 made his position go from bad to worse. The reason for his inability to pay his debt is obvious. When he borrowed money he was selling his crops at fairly remunerative prices. But when he had to pay the debt he was not receiving even the cost price. If he borrowed when the index number of commodities which he sold was 110, and had to pay in 1932, when the index number of these commodities had fallen to 43, the amount which he had to pay in commodities was almost three times the amount when he borrowed. And some of his commodities could not be sold at any price.

When President Roosevelt came to the helm of affairs he realized that it was more important to relieve the mortgage situation than to organize a permanent institution.

[1] The Farm Debt Problem, U.S.A. Department of Agriculture, House Document, No. 9, 73rd Congress.

[2] For details and geographical distribution of debt, see Myers, W. I., "Farm Credit Administration," page 45. *American Institute of Banking*, New York, 1934.

After three years of falling prices the farmers were threatened with bankruptcy. The number of foreclosures and defaults in payments was rapidly increasing. In order to give a breathing space to the farmers who were being crushed by this heavy debt, the Emergency Farm Mortgage Act was passed which received executive approval on 12th May, 1933.

**The Federal Land Banks and the Emergency Farm Mortgage Act**

The Emergency Farm Mortgage Act makes the following provisions—

1. It permits the federal land banks to make loans direct to borrowers in certain areas. Previous to the enactment of this Act all federal land bank loans were made through the national farm loan associations, as already described. But owing to depression many of these associations were in financial difficulties, and were not permitted to make new loans. There was a great demand for credit by farmers which could not be provided owing to the strict rules of the Federal Farm Loan Act. This Emergency Farm Mortgage Act made it possible for those farmers, who were not served by an active farm loan association, to get loans directly from the federal land banks. However, such direct borrowers had to subscribe the stock of the federal land banks to the extent of 5 per cent. of their loans, and had to pay a rate of interest 1 per cent. higher than that paid by the farm loan associations.

2. The Act granted interest reduction to federal land bank borrowers for a period of five years. The Act provides that the interest rate be 4½ until 12th July, 1938. This reduced interest rate is only applicable to those loans which were in force on 12th July, 1933, and also to those made up to 12th May, 1935. The loans made direct to borrowers will bear 5 per cent. interest. After 12th July, 1938, the interest rate will revert to the original rates borne by the loans.

3. It allows federal land bank borrowers to postpone principal repayments on farm mortgage loans. Default in payment of their annual instalments became common during the period of depression, and it was realized that it was

very hard for the farmers to continue their payments. In order to give a partial relief, this Act provided that farmers who have already borrowed money from the federal land banks, and will borrow up to 12th May, 1935, will not be required to make any payment on the principal of these loans before July, 1938, provided their loans are in good standing, and the postponement is sanctioned by the federal land bank.

4. The Act allows the federal land banks to grant extensions to worthy borrowers, and to reamortize such extensions. "The interest reduction and extension of principal payments mean a great deal to the borrower who obtained one of the first land bank loans. For example, a certain farmer in 1917 obtained a $3000 loan having 5 per cent. interest. He has paid thirty-two semi-annual instalments of $90. The last one was $57.75 interest and $32.25 principal. Now for five years his payments are reduced to $51.8, the interest at 4½ per cent. on the $2310.12 principal which he still owes on the loan.[1]

5. This Act also makes provisions whereby farm mortgage loans may be made for as much as 75 per cent. of the appraised value of the farm improvements and personal property mortgaged. It also makes provision for loans to be made on second mortgages provided the total value of the loans does not exceed 75 per cent. of the value of the property offered as security. Under the provisions of the Federal Farm Loan Act, loans cannot exceed 50 per cent. of the value of the property offered as security and 20 per cent. of improvements. This liberal increase up to 75 per cent. and the important provision of second mortgage had to be made in the Emergency Farm Mortgage Act in order to enable farmers to refinance their indebtedness. It should be noted here that this extension applies only to those loans that are made by the Land Bank Commissioner under the provisions of the Emergency Farm Mortgage Act from the funds placed at his disposal by the Reconstruction Finance Corporation, i.e. $200,000,000.

[1] Address delivered by Myers, W. I., Governor, "Farmers' Credit Administration."

The maximum amount of such a loan was first limited to $5000, but has later been increased to $7500. The total funds at the disposal of the Land Bank Commissioner for such loans are limited to $200,000,000. It has been possible to make such liberal provision in these loans as the funds are not raised from private investors, as is the case of funds for the federal bank loans, but are provided by the Federal Government through the Reconstruction Finance Corporation which is a State-owned Corporation.

**Purposes of the Loans**

Loans are made by the Land Bank Commissioner for the following purposes—

1. To refinance any indebtedness, secured or unsecured.
2. To provide working capital for farming operations.
3. To enable a farmer to reacquire farm property lost by foreclosure.

**Second Mortgage Loans**

In order to help farmers to get the maximum loans authorized by law, a provision was made in the Emergency Farm Mortgage Act, that, in addition to loans borrowed from the federal land banks (which make advances up to only 50 per cent. of the value of the security) or other sources, they could raise loans from the Land Bank Commissioner on second mortgage up to 75 per cent. of the value of the property offered as security. When loans are secured by second mortgages upon farm real estate, the borrower has to obtain the agreement of the holder of the first mortgage to the following conditions—

1. That during a period of three years he will not proceed against the mortgagor and/or the mortgaged property for default in the payment of principal unless, in the meantime, the Commissioner consents in writing to such proceeding; and
2. That he will notify the Commissioner in writing, at his office in the district in which the property is situated, at least thirty days in advance of the institution of any

proceeding against the mortgagor and/or the mortgaged property.[1]

**Refunding Indebtedness**

A major number of loans obtained by farmers during 1933 was for the purpose of refinancing farm indebtedness. "More than 85 per cent. of the proceeds of loans made by the Federal Land Banks and more than 90 per cent. of the proceeds of loans made by the Land Bank Commissioner are being used for refinancing purposes."[2]

In many cases it was found impossible to refinance the farm indebtedness even with the additional loans obtained from the Land Bank Commissioner. In such cases it was found necessary to make a compromise between the debtors and creditors, and to scale down the debts. There is no compulsion in this matter, but many creditors have been only too glad to make considerable concessions in view of getting cash. Data available on 1st December, 1933, indicate that approximately 17.6 per cent. of the Land Bank Commissioner's loans have involved a scaling down of debts. The average amount of the reduction of indebtedness in these cases has been about 23 per cent. of the original amounts owed.

The corresponding figures for the farmer obtaining federal land bank loans indicate voluntary reductions by creditors in approximately 81.6 per cent. of the original cases of indebtedness.[3]

In view of the gravity of the situation in October, 1933, the Governor of the Farm Credit Administration sent requests to the Governors of all States to appoint State and County debt adjustment committees to work out fair debt settlement by conciliatory methods in cases where farmers were helplessly involved. This appeal received a liberal response from the Governors of the various States, and by the

[1] For detailed description, see *Farm Financing through Farm Credit Administration*, mimeographed Circular prepared by the Farm Credit Administration of St. Louis, page 11.

[2] First Annual Report of the Farm Credit Administration, page 11, (1933).

[3] See Farm Credit Administration Report. *Op. cit.*, page 12.

end of 1933, thirty-nine out of forty-eight States appointed debt adjustment committees, and more than 2000 counties had debt adjustment bodies working under the direction of a state committee. These committees have brought some relief to many sufferers.

### Emergency Aid in Threatened Foreclosures

The ordinary process of making a mortgage long-term loan is a slow one. But the critical conditions of farmers, and the rising trend in foreclosures of properties, required that the usual process should be expedited, and some new steps should be taken to save farmers from losing their farms. Consequently, early in October, 1933, the Governor of the Farm Credit Administration undertook to give special assistance to farmers who were in danger of losing their farms through foreclosures, and a small section was established in the Farm Credit Administration to deal quickly with such emergency cases. A special committee for this purpose was organized in each of the federal land banks.

On 22nd October, 1933, President Roosevelt, in a radio speech, appealed to holders of farm mortgages to withhold foreclosure proceedings in order to give farmers an opportunity to refinance their debts by means of loans from the federal land banks and the Land Bank Commissioner. He also advised farmers, who were in danger of losing their farms, to inform the Farm Credit Administration either by letter or by telegram. Soon after this appeal the Farm Credit Administration began to receive about 300 letters and telegrams every day, and every effort was made to take immediate steps to help such farmers, if they possessed good security to offer. In cases where they were hopelessly involved creditors were asked to scale down their debts.

### Working of the Land Bank Commissioner's Loan

Shortly after passing the Emergency Farm Mortgage Act the Land Bank Commissioner appointed an agent in each federal land bank district to handle loans. Separate offices were established by these agents to conduct their business,

but they utilized the federal land banks and their valuers for valuing the farm property offered as security for loans. Separate application forms were required for these loans, and for all formal purposes it was a separate office rather than a department of the federal land banks. Farmers requiring loans from the federal land banks as well as from the Commissioner, were required to give two separate application forms, and had to pay two application fees. This led to inconvenience and duplication. In order to remedy this defect the federal land banks were made agents for the Commissioner on 25th August, 1933, and for all purposes the Commissioners' office became a regular department of the federal land banks, and a combination application form for handling both loans was prepared.

### Amount of Loans

On 31st December, 1933, total loans amounting to $70,812,112 were closed (i.e. actually advanced). In addition to these closed loans there was a commitment for approximately $249,208,900.[1]

### Additional Funds

It soon became apparent that if the Land Bank Commissioners' Loans were to be continued, additional funds must be provided. These were made available by the Federal Farm Mortgage Corporation Act, which was approved on 31st January, 1934.[2] This Act authorized the Land Bank Commissioner to make loans on behalf of the Federal Farm Mortgage Corporation to the extent of $600,000,000 to be paid in the bonds of this corporation.

### Increase in Loans

From 12th May, 1933, to 30th June, 1934, the Land Bank Commissioner made 228,734 loans aggregating $380,809,901. From nineteen loans amounting to $40,100 in May, 1933, the number of loans rose to 23,709, amounting to $36,665,204 during December, 1933.

[1] Report of the Farm Credit Administration. *Op. cit.*, page 11.
[2] Described in a later section.

### Terms of Loans

For the purpose of refinancing farm indebtedness loans can be made for a period not exceeding forty years. Loans for purposes other than such refinancing can be made for a period not exceeding thirteen years. However, in practice the loans for refinancing purposes are made for a considerably shorter number of years than is authorized by the Act. An analysis of the loans made by the Land Bank Commissioner during the first year of its operation has been made by the Division of Finance and Research of the Farm Credit Administration. This analysis shows that during the first year of operation 86.8 per cent. of the number and 83.6 per cent. of the amount of Commissioner's loans were made for a period of thirteen years.

### Purposes of the Commissioner Loans

From 12th May, 1933, to 30th April, 1934, the loans made for various purposes show the following percentages—

| *Purposes for which Loans were made* | *Per Cent.* |
|---|---|
| Refinancing mortgages | 68·2 |
| Refinancing other debts | 23·2 |
| Provide for working capital | 6·0 |
| Redeem or purchase farm property | 1·8 |
| Pay loan fees | 0·8 |
| TOTAL | 100·0[1] |

### Interest Rate

The Emergency Farm Mortgage Act has prescribed that the interest rate on Commissioner's loans should not exceed 5 per cent. During the first year of operation of these loans the maximum rate of interest allowed by the Act, i.e. 5 per cent., was charged on all loans.

### The Federal Farm Mortgage Corporation

The Federal Farm Mortgage Corporation was established by the Federal Farm Mortgage Corporation Act, approved on 31st January, 1934. It provided an additional fund of $600,000,000 for the Land Bank Commissioner's loans. But the main purpose of the establishment of this

[1] Myers. *Op. cit*, page 228.

corporation was to increase the marketability of the federal land banks' bonds.

From the very beginning of the period of depression it became increasingly difficult for the federal land banks to sell their bonds at reasonable rates of interest. The money market was uncertain and highly unfavourable for the issuing of any bonds. The demand for long-term loans was increasing and the land banks were not able to cope with it. When in May, 1933, the land banks were called upon to embark on a refinancing programme it was necessary that they should be in possession of considerable funds. It was not possible to get a response from private investors without some sort of positive assurance for the safety of their funds. So Congress authorized the United States Treasury to guarantee the interest of $2,000,000,000 land bank bonds to be issued before 13th May, 1935. The interest rate was fixed at 4 per cent. Even with the guarantee of interest it was found impossible to sell these bonds to private investors, so these bonds were pledged with the Reconstruction Finance Corporation as collateral for loans obtained from the Corporation. But this method did not prove effective, for the public confidence in any sort of bonds was shaken after the collapse of the stock boom of 1929. The only method that could attract funds from private investors was the absolute guarantee of principal as well as interest by the Federal Government. The method chosen to attract private funds was the creation of the Federal Farm Mortgage Corporation.

This Corporation issues its own bonds which are guaranteed by the Federal Government for payment of both interest and principal. This corporation then exchanges the proceeds of its bonds for the consolidated bonds of the federal land banks. This Corporation is a financial agency for the federal land banks, and is virtually established within the Farm Credit Administration. The affairs of the Corporation are managed by a board of three directors, which consists of the Secretary of the Treasury, the Land Bank Commissioner and the Governor of the Farm Credit Administration. "The Corporation is so designed as to permit the land banks

to enter the investment market with their own bonds at any time when bond market conditions are again favourable, and in this way divorce themselves from the Corporation."[1]

**Working of the Corporation**

The Corporation was organized in February, 1934, and up to 31st May, 1934, it had made two issues of bonds to the public. The first issue was made at 3¼ per cent. and the bonds were issued for thirty years, but the right was reserved for the Corporation to call them after ten years. The second issue was made at 3 per cent., bonds to be matured in fifteen years with the right to be called after ten years. "On 27th June, 1934, $99,980,700 of the 3¼'s and $91,800,800 of the 3's were outstanding and each issue had sold substantially above par during the period since issue. Early in the year $76,900,000 of 2 per cent. one-year bonds were sold to the Treasury and the Bank for Co-operatives."[2] These bonds are exempt from income tax.

**The Federal Land Banks**

There has not been any fundamental change in the structure of the federal land banks by their incorporation in the Farm Credit Administration. Some amendments have been made in the Federal Farm Loan Act which are described in Appendix A. The Federal Farm Loan Board was abolished. In order to increase their usefulness the maximum limit of loans was raised from $25,000 to $50,000, and the double liability of the members of the farm loan associations was abolished. Since their absorption in the Farm Credit Administration the federal land banks have widened their sphere of activity, and have made a very large number of loans. "The total volume of loans closed by the federal land banks during 1933 amounted to $151,634,111 compared with $27,569,800 the preceding year."[3] There was a very considerable increase in the number and amount of loans made during 1934.[4] The amount of loans made

[1] Myers. *Op. cit.*, page 230. [2] Myers. *Op. cit.*, pages 230–31.
[3] Report of the Farm Credit Administration. *Op. cit.*, page 7.
[4] For details, see Appendix B.

during 1933–34 is more than twice the amount of loans made during the previous sixteen years, i.e. from 1916–1932. An important department was established in the federal land banks for the administration of Land Bank Commissioner's loans, as already discussed.

### Joint-stock Land Banks

As has been already pointed out the joint-stock land banks failed to come up to the expectations of even the most pessimistic thinkers. Their financial position was far from satisfactory, and many important joint-stock land banks failed during the period of depression. They were not able to perform the function for which they were established. Consequently the Federal Farm Mortgage Act of 1933 prohibited these banks from making any new loans and made provision for their liquidation. Some joint-stock land banks have been selling their assets to the federal land banks to hasten their liquidation.

### The Federal Intermediate Credit Banks

Since the passing of the Farm Credit Administration Act the federal intermediate credit banks have become a unit of the Farm Credit Administration. Some minor amendments have been made in the Agricultural Credits Act of 1923, but there has been no fundamental change in their structure, only some increase has been made in their capital, and their activities have been enlarged so as to permit them to make loans to the Production Credit Associations which have been organized as a separate unit in the Farm Credit Administration. They have also been permitted by the Farm Credit Administration Act of 1933 to make loans to any co-operative marketing or purchasing association "in which farmers act together in collectively processing, preparing for market, handling and/or marketing the farm products of persons so engaged and also any association in which farmers act together in collecting, producing, testing, grading and/or processing their farm supplies; provided, however, that such associations are operated for the mutual benefit of members thereof as such producers or purchasers."

Previous to the passing of the Farm Credit Administration Act the federal intermediate credit banks were allowed to make loans directly to co-operative marketing associations only. The inclusion of purchasing associations will result in a considerable benefit to farmers.

### Volume of Loans and Discounts

From the date of organization, in 1923, to 31st July, 1934, the federal intermediate credit banks extended credit to the total amount of $2,137,235,039. Of this amount $860,092,937 consisted of loans to co-operative associations and $1,277,142,102 in loans to, and discounts for, financing institutions. There has been a great increase in the business of the federal intermediate credit banks since their organization. From a modest beginning of less than $45,000,000 in 1923 their business had increased to an impressive figure of $279,661,160 in 1933. From 1932 to 1933 alone there was an increase of $100,000,000 which is largely due to the discounts for the twelve Regional Agricultural Credit Corporations.

### Production Credit Corporations

The Farm Credit Administration Act provided for the establishment of twelve Production Credit Corporations —one in each land bank district. The chief function of these Corporations is to make available to farmers the credit facilities offered by the federal intermediate credit banks. The rediscount facilities provided by the latter became less and less available to farmers owing to the failure of large numbers of commercial banks, and to the restrictions made by the surviving ones in rediscounting agricultural paper. When the federal intermediate credit banks were organized they were authorized to provide credit only indirectly. In addition to the various existing financial institutions the Act authorized the formation of Agricultural Credit Corporations by the farmers themselves, in order to borrow from the federal intermediate credit banks. The minimum capital required for these Corporations was fixed at $10,000. With the advent of depression it became increasingly difficult

for farmers to raise the capital required for the establishment of such associations.

The closing of large numbers of banks in the country districts narrowed the channels of production credit and entailed considerable hardship on farmers. In order to provide facilities for farmers to borrow from the federal intermediate credit banks the Farm Credit Administration Act made provision for the establishment of twelve Production Credit Corporations. These corporations assist farmers to raise the necessary amount of capital to form an association in order to be eligible to borrow from the federal credit banks. A central Production Credit Corporation is set up in each land bank district which provides the necessary capital to form as many associations within that district as are necessary according for the requirements of the farmers concerned.

### Capital of the Corporations

Each Production Credit Corporation has an authorized capital of $7,500,000 which is subscribed by the Governor of the Farm Credit Administration. An additional $15 million capital was allocated among the twelve corporations during May and June, 1934. This capital is distributed in the various counties of each district in order to enable farmers to organize Production Credit Associations. When these associations are organized the district corporation supervises their work.

### Organization of the Production Credit Associations

With the permission of the Production Credit Corporation of the district ten or more farmers, who are eligible to borrow from the federal intermediate credit banks, may organize a Production Credit Association.

### Capital of the Production Credit Associations

The initial paid-in capital for the Production Credit Association is provided by the Production Credit Corporation of the district in which the association is organized. It subscribes to Class "A" stock in the association to an

amount approximately equal to 20 per cent. of the estimated amount of loans to be made. This stock is non-voting. Additional capital is provided through the sale to borrowers of another kind of stock called "B" stock. As in the national farm loan associations, each borrower is required to own "B" class stock equal to $5 for every $100 borrowed. This stock carries the right to vote, but in accordance with the co-operative principles each borrower has one vote only irrespective of the amount of stock owned by him. The Production Credit Associations perform the same functions for borrowers from the federal intermediate credit banks as the national farm loan associations perform for borrowers from the federal land banks. These associations are allowed to rediscount with or borrow from the federal intermediate credit banks up to five times the amount of their capital.

### Production Credit Loans

PURPOSES. The Production Credit Associations are allowed to make loans to farmers for general agricultural purposes. The most common purposes are—

1. The purchase of live-stock and dairy cattle. The live-stock loans are repayable when the cattle are marketed, and dairy cattle loans are to be repaid from milk and cream cheques.
2. Crop production. These loans are made on crops in growing condition, or to be planted. They are to be repaid from the sales of crops.
3. Pruning, spraying, picking and other normal operations in the production and marketing of fruit.
4. Securing advances on stored crops such as grain, cotton, etc.
5. Refinancing old, short-term indebtedness. These loans are made in those cases where it is proved that certain debts have been incurred for production purposes.

These associations are allowed to make loans with certain limitations for practically any purpose for which farmers need short-term credit. The minimum amount of loans is fixed at $50, and the maximum varies in various cases,

according to the nature of the security and the strength of the association which is making the loan.

MANAGEMENT OF THE PRODUCTION CREDIT ASSOCIATIONS. Each association is managed by a board of directors of five members, who are elected from the "B" class of stockholders. This board of directors appoints a committee consisting of two members of the board of directors and a secretary. And this committee considers all applications for loans.

RATE OF INTEREST. The associations are not allowed to charge a rate of interest greater by more than 3 per cent. than they pay to the federal intermediate credit banks.

WORKING OF THE PRODUCTION CREDIT CORPORATIONS. The first Production Credit Corporation was organized on 9th August, 1933, in St. Louis, the sixth land bank district, and the last (twelfth) was organized on 19th December, 1933, in Louisville—the fourth land bank district. Immediately after their organization they set themselves to their task of organizing Production Credit Associations. By 30th June, 1934, these corporations succeeded in organizing 651 Production Credit Associations, and on 31st July, 1934, they had subscribed $67,191,625 in the stock of such associations.

### Co-operative Credit Facilities

BANKS FOR CO-OPERATIVES.—Co-operation has made great headway in the United States since the War. The Federal Government has always taken a keen interest in this development. The first step in this direction was taken in 1922 when the Capper-Volstead Act was passed, the principal provisions of which have already been described elsewhere. In 1923, when the Agricultural Credits Act was passed, provision was made to allow the federal intermediate credit banks to make loans to co-operative marketing associations upon the security of warehouse receipts, bills of lading, etc. In 1929, under the provisions of the Agricultural Marketing Act, the Federal Farm Board was created especially to cater for the needs of co-operative marketing associations. Owing to certain very objectionable

features, this Board was dissolved in 1933, and the Farm Credit Administration was entrusted with the task of providing credit for co-operative associations.

Under the Farm Credit Administration thirteen banks —a central bank for co-operatives at Washington, and twelve regional banks—one in each of the land bank districts —have been set up to cater for the needs of co-operative associations. Their function is to provide both long-term and short-term credit to the co-operative associations on terms as reasonable as is possible. The distinguishing feature of these banks is that they are also allowed to make loans to the purchasing co-operative associations of farmers. Such associations were not eligible for loans under previous systems.

An important criticism of the now defunct Federal Farm Board was its highly centralized administration. This feature has been eliminated in the banks for co-operatives, and decentralization has been effected by establishing a bank in each land bank district, in addition to the Central Bank in Washington.

THE CENTRAL BANK FOR CO-OPERATIVES. The central bank for co-operatives is authorized to make direct loans to co-operative associations, to make loans to the twelve banks for co-operatives, and to rediscount the paper of these banks. It was organized on 12th September, 1933. It provides larger loans which are outside the scope of district banks, and acts as a central reservoir. The activities of the central bank cover the whole area of the United States. Every application for loans exceeding $300,000 must be submitted to the central bank.

CAPITAL OF THE CENTRAL BANK. The capital of the central bank has been fixed by the Governor of the Farm Credit Administration at $50,000,000, the whole amount of which has been subscribed by him from the funds left from the Revolving Fund of the Federal Farm Board. "Each borrower from the central bank for co-operatives is required to own at the time the loan is made stock equal in fair book value to $100 for each $2000 or fraction thereof, of the amount of the loan."[1] This provision has been made to

[1] Myers. *Op. cit.*, page 321.

allow the borrowers to participate in the ownership of the bank.

MANAGEMENT. The management of the central bank is vested in a board of seven directors, including the Co-operative Bank Commissioner who is chairman of the Board. The other six directors are appointed by the Governor of the Farm Credit Administration.

SOURCES OF LOAN FUNDS. The bank derives its funds for lending purposes from two sources—

1. Its subscribed capital.
2. The issue of debentures.

The second source has not been utilized so far. The Governor of the Farm Credit Administration has the power to increase the capital of the bank if occasion demands it.

VOLUME OF LOANS. The central bank for co-operatives has lent $28,486,657 from the date of its organization in September, 1933, to 30th June, 1934. Of this amount, $28,094,894 was for effective merchandising loans and $391,763 was for facility loans.[1] District banks for co-operatives—each in a land bank district—with the central bank in Washington, provide an excellent system of co-operative credit. As already mentioned, the first district bank was organized in St. Louis—the sixth land bank district—on 9th August, 1933, and the last on 19th December, 1933, in Louisville—the fourth land bank district.

CAPITAL.—Each district bank has a capital of $5,000,000 which has been subscribed by the Governor of the Farm Credit Administration from funds available to him from the balances of the Revolving Fund. Borrowers have to subscribe $100 for every $2000 borrowed as in the case of the central bank.

MANAGEMENT. The management of each bank for co-operatives in each district is entrusted to the directors of the federal land bank of that district.

SOURCES OF LOAN FUNDS. The district banks for co-operatives have two sources for loan funds—

1. The subscribed capital.

[1] Myers. *Op. cit.*, pages 322–23.

2. Loans from or discounts with the central bank for co-operatives. However, no such loans or discounts have been made so far. The district banks for co-operatives are not allowed to issue debentures.

PURPOSES OF LOANS. Loans may be made to either buying or selling associations of farmers, which are based on co-operative principles. There are approximately 1600 co-operative purchasing associations of farmers which buy seed, fertilizers, etc., but were not eligible for loans either under the Agricultural Credits Act of 1923, or the Agricultural Marketing Act of 1929. Loans to purchasing associations of farmers constitute a unique service which these banks will render to farmers.

These banks make two types of loans—

1. Working capital loans.
2. Facility loans.

WORKING CAPITAL LOANS. These loans are made to any co-operative association of farmers for the purpose of aiding an association in paying the cost of meeting its current business expenses, and for financing operating capital indebtedness. These loans are made on the security of a first lien on the farm commodity, food products, or farm supplies on which the loan is issued. Due regard is paid to the association's financial status before the loan is made. Loans are generally made for short periods, but due consideration is given to the purpose for which the loan is taken, and the period is fixed according to the requirements of the situation.

RATE OF INTEREST. The banks are not allowed to charge a rate of interest lower than 3 per cent. or higher than 6 per cent. In practice the interest varies from 3 to 4 per cent. according to the conditions of the money market.

FACILITIES LOANS. These loans are made to buy, to build, to lease, or to refinance the cost of acquiring physical facilities required by co-operatives. The security required for these loans is a first mortgage, and they are made for a maximum period of twenty years. Limitations as to the rate

of interest are the same as in the case of merchandising loans. In practice these loans are made for ten years or so, and a rate of interest generally equal to that on farm mortgage loans is charged.

VOLUME OF LOANS. From the date of organization to 30th June, 1934, the twelve district banks for co-operatives lent $8,264,487 to co-operative associations. Of this amount, $3,308,458 was for merchandising loans and $1,827,726 was for facility loans.[1]

### Other Types of Help to Co-operatives

Lack of experienced managers and absence of business spirit have been the cause of failure of many co-operative societies. Endeavours have been made by the Co-operative Division of the Farm Credit Administration to remedy this defect by placing financial and business experts at the disposal of co-operative societies to solve their difficulties. These experts render assistance to the associations in dealing with organization and management problems, and developing sound financial policies. Such a service was very badly needed in order to put the co-operatives on a sound footing.

Such a service is not only essential for the co-operatives, but is absolutely necessary for the banks in their own interest, in order to safeguard themselves from financial losses due to bad management and the inexperience of co-operatives. "This work is closely related to the credit functions of the banks, since such service makes borrowing co-operatives a better credit risk, and assistance to new and non-borrowing associations is a factor in determining the ultimate success of the whole co-operative movement."[2]

The central bank for co-operatives in Washington and the co-operative banks in the districts maintain an adequate staff of business and financial experts, whose duty it is to advise the co-operative societies in regard to their internal operating policies, stressing economy and efficiency in the handling and distribution of their goods. They also make

[1] Myers. *Op. cit.*, pages 328–29.
[2] First Report of the Farm Credit Administration. *Op. cit.*, page 41.

an analysis of financial operating statements of co-operative societies with a view to developing effective budgetary control.[1]

It is the aim of the banks for co-operatives to assist these in their business enterprises, but not completely to finance, own, and operate them. The responsibility for the success or failure of the co-operatives rests entirely on their organizers. The banks for co-operatives have provided the American farmers' co-operative associations with a sound system of permanent finance and expert advice, hardly equalled in any other part of the world.

**Critical Estimate of the Farm Credit Administration**

It is too early yet to pass any judgment on the valuable work of the Farm Credit Administration. Time is the test, and it alone can tell the real worth of any such institution. As far as the general principles are concerned, the foundations of the present system look sound, and it is justified in view of the circumstances prevailing in the country. The Farm Credit Administration came into being when the country was in the deepest depths of depression, and the morale of the agricultural industry was being destroyed through the fall of prices and wholesale foreclosures. The outlook for the farmers was very dark indeed.

The Farm Credit Administration has been working since its inauguration through the most difficult times recorded in recent history. Under these circumstances it becomes all the more difficult to judge its value as a permanent farm credit institution. During its first year it has been confronted with the difficult task of providing emergency relief. It has achieved very significant results. In the first year it provided farmers with $1,250,000,000 credit through all the agencies working under it. "The most significant achievement of the year is not that one measured by the dollar sign; rather it is the improvement in the morale of agriculture everywhere—the return of hope and beginnings of renewed confidence on the part of farm

[1] For examples of such services, see First Annual Report of the F.C.A.

workers who saw nothing ahead but ruin fifteen months ago."[1]

Some mistakes have been made by the Farm Credit Administration, but they have been errors in execution, not in the fundamental application of the whole system to the problems presented. The Administration was faced with such a tremendous task in so short a time that it would have been impossible for even the oldest established institution to deal with it with entire satisfaction.

The increasing participation of the Federal Government in the domain of agricultural credit might be objected to by those who are advocates of private enterprise, and be considered a serious encroachment on private rights. On general grounds there is much to justify this assertion. But, taking into consideration the increasing participation of the State in so many other important fields, there seems little reason for excluding farmers from its ambit. The Farm Credit Administration "is admirable as a recovery measure in both its specific and general results. It benefits the farmers. It helps to thaw the frozen streams of credit and of trade."[2]

An important question arises about the future possibilities of the Farm Credit Administration. The subscription of the capital stock of various agencies working under the Farm Credit Administration, by the Government, and, in addition, the guarantee of more than $2500 million bonds by the Federal Government may be justified in view of the crisis, the stringency of the money market, and the lack of investors' confidence in private bonds. Such a step was necessary to save the farmers from ruin in such an extraordinarily difficult period. However, one may ask, will it be possible for the Federal Government to disengage itself in years to come, and will the capital stock of those institutions be gradually subscribed by borrowers, and will eventually the Farm Credit Administration become a private corporation, or will it continue, at least for many

[1] Ellis Wellard, D. Address delivered before the Western Farm Economic Association.
[2] Steel, Maitland, Sir Arthur. *New America*, page 113.

years to come, as a State institution providing all sorts of credit?

It is highly desirable that, with the return of normal conditions, it should revert to the position of a private corporation as originally intended. If the Federal Government should continue to provide funds in one form or another, "what are going to be the demands made by the farmers and voiced by Congress? What opportunities, on the other hand, are placed in the hands of an adroit and determined administrator? He will have the power to affect the well-being of farmers in a matter in which they will be most sensitive to influence." [1]

It is only time that can answer these questions. In the meantime it is earnestly hoped that the Farm Credit Administration will become a permanent co-operative institution of farmers, immune from all party or political influences, and will be administered in the interest of the farmers on sound business lines. If any credit institution is to succeed, politics and charity must be divorced from it.

[1] Steel, Maitland. *Op. cit.*, page 114.

# CHAPTER VIII

## CONCLUDING REMARKS

WILL credit alone cure all the ills of agriculture? After the perusal of the foregoing pages one is compelled to give an answer in the negative. The facts speak for themselves. The Farm Credit Administration has provided the American farmer with the finest agricultural credit system in the world. Under one administration all the different credit institutions have been co-ordinated to provide him with credit of almost all descriptions. After all, credit or capital is only one of the factors needed for productive efficiency, and no single factor can achieve successful results if there is a lack of other factors. Even if every American farmer can get all the credit he wants at a reasonable price, he cannot make the agricultural industry pay, if he has little control over, or cannot adjust himself to, the other factors that govern his economic environment.

We find, for example, that the tremendous fall in land values has threatened farmers with financial disaster and, in many cases, with eventual bankruptcy. It has drastically curtailed the equity of the farm and has led to a heavy burden of debt, and a decrease in the farmer's power of borrowing. This crushing burden has been heavily felt by farmers, because many of them bought the land on a mortgage basis during the period of the War when prices were soaring very high. The decline in land values becomes quite clear when we study the following figures. "During the decade 1920 to 1930, the index for the country as a whole dropped from 170 to 115, or 32 per cent. from the peak. During the three years, 1930 to 1933, the index dropped from 115 to 73, a decline of 37 per cent. On an average, United States farm real estate values as of 1st March, 1933, were approximately one-quarter below the pre-War base and somewhat more than one-half below 1920 values."[1] The total value of farm real estate fell

[1] "The Farm Real Estate Situation," Stauber, B. R. Circular No. 309, U.S. Department of Agriculture, page 2.

from $66,316,000,000 in 1920 to $30,515,000,000 in March, 1933.

This average decline does not adequately represent the picture for the country as a whole. The decline in the five dominantly agricultural States has been more pronounced. In all but seven States the index of values in March, 1931, was below the pre-War average.

This fall in land-values has disturbed the whole equilibrium, and has been responsible for many of the farmers' troubles. There has been a pronounced increase in the number of changes in farm ownership, as so many farmers have not been able to meet their obligations, which have increased in intensity by reason of the decline in land values and the fall of prices. The national average for turnover of land has increased from 19.5 per 1000 in 1920–1929 to 54.1 per 1000 in 1932–1933. This represents only involuntary sales which were due to foreclosures, forced sale, sale in bankruptcy, etc. The number of voluntary sales has also been increasing. The increase in both voluntary and involuntary sales has been accelerated owing to a great decrease in the gross income from farm production. During 1932 this income reached the lowest level of $5,143,000,000, according to the available statistical record of the Bureau. "This was a billion dollars less than in 1909, less than half the 1924–29 average, and 26 per cent. below that of 1931."[1]

This situation fairly explains why farmers have been clamouring for relief, and why they have always laid great stress on the credit side of the problem. When at a time of falling prices they are faced with an increasing burden of debt and threats of foreclosures, they naturally think that they would be saved from eviction and bankruptcy if they could get more credit. But this is a mistaken belief of the farmers, due to their short-sightedness. The sooner they realize that no amount of credit by itself can make agriculture pay, the better for them. Under existing circumstances it is impracticable to trust to natural economic forces, and measures must be taken to reduce the financial risks of their industry.

[1] Circular No. 309. *Op. cit.*, page 2.

There are many causes for the uncertainty of farm prices and incomes. Since the War it has involved farmers in many troubles and has upset the agricultural economy as a whole.

A tremendous rise in the prices of farm products took place during the War, owing to the increase in the demand for American products to supply the belligerent nations of Europe. There was a stimulus to produce more food under the spur of high prices and patriotism. The slogan of those days that "Food will win the War" led farmers to exploit their resources to the fullest possible extent. Even sub-marginal grasslands were brought under the plough. Under this stress the American farmer put some 40 million acres of additional land under the plough.

The scarcity of land, accompanied by a great demand for land products at very remunerative prices, led to high land values which were further increased by speculative mania. After the War the same optimistic attitude was continued without any regard to what was happening on the other side of the Atlantic. Europe, having suffered the horrors of shortage of food supply during the Great War, immediately turned to safeguard this basic national industry. The large number of demobilized soldiers had to be provided with work, and agriculture appeared the easiest if not the best outlet available. The psychological basis of economic nationalism began to take deep root after the War, with the result that America lost a good deal of the European market, which it had secured in the previous years, through a closed door policy. Moreover, the economic situation of America had changed during those fateful years. From a debtor country it had become one of the leading creditor countries of the world. Her statesmen failed to grasp this position. America used to pay her debts to her creditors through the export mainly of agricultural products. In order to develop her own resources, machines and other industrial products had been imported, and newly started industries were highly protected. This policy was all right as long as she was a debtor country. But it was not possible for foreigners to pay their debts to her when she closed her

door, and fortified it with higher tariff walls. In the meanwhile every effort was made, not only to continue her exports, but to increase them.

The mistaken policy of demanding the payment of debt in gold was rigidly followed. Europe retaliated with the same weapon, and closed the doors against U.S.A. agricultural products. The huge imports of gold led to artificial prosperity in industry and a boom in the stock market, the after-effects of which are too well-known to describe here. The point is that the American farmer has suffered a great loss through this closed door policy of his own statesmen. He has paid higher prices for the highly protected industrial products of his own country, while he has received declining prices in the unsheltered and, in many cases, highly protected and subsidized markets of foreign countries.

Further, there has been a great disparity in the prices of agricultural and industrial products within the country, as is demonstrated from the following figures—

GENERAL TREND OF PRICES AND PURCHASING POWER FOR SPECIFIED YEARS, 1910–1933

*Index Number of Farm Prices (August, 1909–July, 1914—100)*

| Year and Month | Grains | Fruits and Vegs. | Meat Animals | Dairy Products | Poultry Products | Cotton and Seed | All Groups | Ratio of Prices Rc'd to Prices Paid | Wholesale Prices |
|---|---|---|---|---|---|---|---|---|---|
| 1910. | 104 | 91 | 103 | 100 | 104 | 113 | 103 | 105 | 103 |
| 1915. | 120 | 83 | 104 | 98 | 103 | 78 | 100 | 95 | 102 |
| 1920. | 231 | 249 | 173 | 188 | 222 | 248 | 205 | 106 | 225 |
| 1923. | 156 | 160 | 139 | 137 | 161 | 177 | 147 | 95 | 151 |
| 1926. | 129 | 189 | 146 | 136 | 156 | 122 | 136 | 89 | 146 |
| 1927. | 128 | 155 | 139 | 138 | 141 | 128 | 131 | 87 | 139 |
| 1928. | 130 | 146 | 150 | 140 | 150 | 152 | 139 | 91 | 141 |
| 1929. | 121 | 136 | 156 | 140 | 159 | 145 | 138 | 91 | 139 |
| 1930. | 100 | 158 | 134 | 123 | 126 | 102 | 117 | 71 | 126 |
| 1931. | 63 | 98 | 93 | 94 | 96 | 63 | 80 | 65 | 107 |
| June— | | | | | | | | | |
| 1932. | 44 | 82 | 57 | 62 | 59 | 37 | 52 | 48 | 93 |
| 1932. | 44 | 71 | 63 | 70 | 80 | 46 | 57 | 53 | 95 |
| Aug.— | | | | | | | | | |
| 1933. | 81 | 120 | 63 | 72 | 67 | 71 | 72 | 64 | 102[1] |

[1] Circular No. 309, Department of Agriculture, U.S.A., page 20.

The foregoing figures clearly show the disparity between the prices paid by the farmer and those received by him. In 1910 the prices of farm products and farm and household requisites were such that the farmer's dollar was worth 105 cents in comparison with the base period. We notice a downward trend from 1925 onward till we reach the lowest point, and the greatest diversity in June, 1932, when the farmer's dollar was worth only 48 cents. The index number of wholesale prices of all commodities at that date was 93. The causes of this disparity are many, and are not within the scope of this treatise to discuss. But it should be remembered that their presence is responsible for the burden of the farmer's indebtedness, and the equilibrium must be restored in order to put agriculture on a paying basis.

**Cost of Labour**

While the prices of farm products have fallen to such low levels there has not been a proportionate decrease in the costs of production. Labour costs have changed but little. Immigration restrictions have led to high wages, which are reflected, not only in the farmer's cost of production, but also in the whole series of costs of distribution. It has led to a surplus of agricultural production in the United States, and has stimulated intensive agriculture in the European countries, which has curtailed the market for American agricultural products. The efficiency of agricultural labourers has not increased to the same extent as the efficiency of the industrial workers has increased. Owing to high costs of labour more and more labour-saving devices have been contrived, and increasing use of machinery has been made. This has led to a demand for a larger amount of production capital. Millions of horses and mules have been displaced by automobiles, trucks and tractors. This has meant more production and less consumption on the farm. These displaced horses and mules had eaten the crops produced on 35 million acres of land. While more acres have been cultivated by the motor tractor, this has led to a decrease in the demand for farm products which were previously fed to farm animals.

In addition to increase in the cost of labour since the War, there has been also increase in other expenses of production. Taxes have gone up, and have not declined proportionately with the fall in the prices of agricultural products. Readjustment of agricultural production is absolutely necessary if the farmer is to be saved from falling into a bottomless pit of ruin.

**Cost of Organization**

The weakest link in the farm-chain is the farmer himself. He is generally the entrepreneur, and it falls to his lot to organize the farm properly. While scientific management has considerably decreased the cost of production in industry, poor if not bad management is one of the chief factors in the high cost of farm production. More than anything else the farmer requires high business and managing ability. "More farmers fail because of poor farm management than because of poor production. This is to be expected, since the principles of crop growth are much the same as they always were, while the proper organization of the farms changes with every new invention. More farmers fail because the size of the farm or kind of farming does not keep men, horses and machinery properly employed than fail because of poor crops.[1]

The average farmer has failed to get an adequate amount of credit from commercial banks, or other money-lending institutions, not because they are unwilling to lend, but because he is unable to furnish proper security. His books are generally kept in such a way that no one but he can understand them, and the irony of fate is that very often even he does not understand them himself.

In the present complex and highly commercialized system of agriculture, inefficient farm managers have no place. The high cost of marketing agricultural products is, in many cases, due to the bad management of the farmers themselves. An efficient farmer must learn how to co-operate with other farmers in order to decrease the costs of marketing, and also he must learn to adjust his production to changed

[1] *Farm Management*, Warren, C. F., page 2.

circumstances. This cannot be achieved by the farmer himself without some external help. Individual action, without co-ordination of national policy, would lead to disharmony and ultimate chaos. In order to enable farmers to realize remunerative prices for their efforts it is highly desirable that a sound policy of National planning should be adopted.

"A balanced agricultural production, the highest efficiency of the agricultural industry, sustained prosperity of the farmer, and the permanent interest of the nation in the preservation of its natural resources can be attained only through a carefully planned policy for the utilization of the land."[1] It is highly desirable that every effort should be made to increase the demand for agricultural products which has been curtailed owing to artificial barriers. The United States can set an example to the world by lowering her own tariff barriers and admitting industrial products worth several millions of dollars. And this would, in all probability, lead to a further demand for American agricultural products in those countries which have been compelled to foster uneconomic agriculture as a result of trade barriers in other countries. The mania of economic self-efficiency has led the whole world to adopt the mad policy of the closed door economy, and the only remedy that can cure this madness is that a big nation like the United States should set a noble example by opening her door. America has more to gain than lose by such a policy. Many uneconomic industries have been fostered there which are hot-house plants and cannot survive in the atmosphere of competition. The products of such industries are raising the cost of production in both town and country, and have been responsible for the growth of other spoon-fed industries. These high cost products are increasingly placing American farmers at a great disadvantage in competing in the markets of the world. The time has come when a bold step should be taken, and this serious uneconomic growth

[1] "The Condition of Agriculture in the United States and Measures for Its Improvement," *Report of the Business Men's Commission on American Agriculture*, 1927, page 35.

stopped. This would lead to a more healthy situation. The cost of agricultural production would be lowered, and the farmers would be able to compete in world markets once more. Prosperous agriculture is absolutely essential for American prosperity and welfare, and this is possible under present conditions only if the large amount of poor and sub-marginal land, much of which was brought under cultivation during the War, is substantially reduced, in favour of improved pastures.

Depression in agriculture has been accentuated by depression in industry, and, in turn, depression in industry has been accentuated by depression in agriculture. During 1926, the American farmers' production costs amounted to $2,867,000,000. Owing to decreased incomes in 1932, their expenditure fell to $1,302,000,000.[1]

Owing to decreased expenditure of the farmers there was less demand for industrial products and many factories were closed, leaving a vast army of unemployed. This vast army of unemployed was unable to buy as many agricultural products as previously, owing to decreased purchasing power. This is a vicious circle which can be broken only by a thorough policy of reconstruction. Inefficient industries must be stopped and agricultural production should be placed on a sound business basis.

It is very desirable that the Administration should follow a vigorous policy of afforestation, which is absolutely necessary to preserve the natural resources of the country. At the present time when there is so much propaganda going on in favour of the nationalizing of land, the American Government can make a fair compromise by embarking on a policy of developing national forests.

In addition to these measures, it is highly desirable that the general banking system of the country should be overhauled, and a sound monetary policy followed because "changes in value of money play an extremely important part in the determination of prices and in the fortunes of agriculture."[2]

[1] For details, see *Achieving a Balanced Agriculture Bulletin*, Dept. of Agriculture, Chapter I.

[2] *The Planning of Agriculture*, Astor, Viscount, and Murry, Keith, A. H., page 24.

Another very important factor which we have not discussed here, but which is responsible for many of the farmer's troubles, is high railroad rates and other distributive costs. "The multiplication of transport and middleman activities, hitherto criminally unregulated by the State, is the chief cause of the disparity between agricultural and industrial prices."[1] It is a matter which deserves the most careful and earnest consideration of the Administration.

The remarks made in the foregoing pages do not fall precisely within the scope of this treatise, and are not directly concerned with agricultural credit. But it is essential to understand the general causes through which agriculture is suffering, and unless these obstacles are removed, no amount of agricultural credit can solve the problems of the American farmer, and put his industry on a paying basis. "Some means must be found to ameliorate the consequences of destructive crop surpluses and disastrous price fluctuations. It is true enough that natural economic forces must be looked to; but they must be harnessed; and that harness must be so designed and adjusted as to enable all the forces of the entire body politic to pull together."[2] There is no denying the fact that Government can help the farmers to a certain extent at such a period of economic crisis, and there is no reason why it should not; but when all has been said and done, the farmer himself must remain the chief guardian of his own salvation in face of such rapidly changing circumstances. Perhaps the best way in which the Government can protect the interests of the farmer is by ceasing the "Protection" of non-agricultural interests. In a really Free Economy, in which trade, both internal and external, was allowed to follow its natural directions, and prices, not only of goods but of the various factors of production, fully adjusted themselves to changing conditions of supply and demand, the farmer would easily carry his share of the burden of economic adjustment, made tolerable because widely distributed over all the

[1] *The Nemesis of Economic Nationalism,* Johnston, J., page 22.

[2] *Report of the Businessmen's Commission on American Agriculture. Op. cit.*, page 37.

elements in a freely functioning national and international economy.

The only permanent prosperity for agriculture, or for the world, must be based on a gradual increase in the consumption and production of an increasing variety of useful things. The demand for even the primary necessities of life is nowhere near saturation point, and it is only necessary to clear the channels of commerce, and restore the flexibility of the price system, in order that human need should be transformed into economic demand, and the economic welfare of all be increased by the increasing efficiency with which, impelled by ordinary economic motives, we shall continue to provide reciprocally for each others' wants.

The farmer's credit problem in America and elsewhere must be viewed as simply one of the many distressing symptoms of the sickness of the Free Economy.

# APPENDIX A

## Some Amendments made in the Federal Farm Loan Act of 1916 by the Farm Credit Administration Act of 1933

1. Not more than one director of a federal land bank may be employed as officer or employee, except with the approval of the Land Bank Commissioner, no other directors shall receive compensation for more than thirty days in any year in addition to compensation for attending to directors' meetings.
2. Removes limitation against taking of Chattel Mortgages by the federal land banks.
3. Removes double liability in stock of borrowers in National Farm Loan Associations or engagements entered into after date of enactment of this Act.
4. Permits federal land banks to charge margin exceeding 1 per cent. in usual cases when approved by the Governor.
5. Broadens eligibility of borrowers of federal land banks to include any person who is now or is shortly to become engaged in farming operations or to any person the principal part of whose income is derived from farming.
6. Authorizes federal land banks to enter into engagement with local Farm Loan Associations to share losses and gains on foreclosed farms equally between local associations and land bank.
7. Changes name of Farm Loan Commissioner to Land Bank Commissioner.

# APPENDIX B

MORTGAGE LOANS MADE BY THE FEDERAL LAND BANKS

| Year as of 31st December | Mortgage Loans Outstanding |
|---|---|
| | Thousands of Dollars |
| 1918 | 156,214 |
| 1919 | 293,595 |
| 1920 | 349,679 |
| 1921 | 432,523 |
| 1922 | 639,486 |
| 1923 | 799,597 |
| 1924 | 927,568 |
| 1925 | 1,005,865 |
| 1926 | 1,007,819 |
| 1927 | 1,155,644 |
| 1928 | 1,194,470 |
| 1929 | 1,197,950 |
| 1930 | 1,188,132 |
| 1931 | 1,163,476 |
| 1932 | 1,116,692 |
| 1933 | 1,232,706 |
| 1934 | 1,915,791 |
| 30th Nov., 1935 | 2,065,620 |

# APPENDIX C

## Some Amendments made in the Agricultural Credit Act of 1923 by the Farm Credit Administration Act of 1933

1. Amends Agricultural Credits Act of 1923 to permit discounts from credit unions and all types of bona fide co-operative associations of agricultural producers and specifically from production Credit Corporations organized under this Act.

2. Amends Agricultural Credit Act to permit direct loans to co-operative associations on other collateral approved by Governor, as well as on warehouse receipts and chattel mortgages on live-stock.

# APPENDIX D

## LOANS AND DISCOUNTS CLOSED
### Federal Intermediate Credit Banks

| Year | Loans to Co-operatives | By Years 1923–1934<br>Loans and Discounts for Financing Institutions | Thousands of Dollars<br>Total Loans and Discounts |
|---|---|---|---|
| 1923 . . . | 35,518 | 9,409 | 44,923 |
| 1924 . . . | 83,222 | 34,446 | 117,669 |
| 1925 . . . | 100,242 | 53,008 | 153,250 |
| 1926 . . . | 103,941 | 73,521 | 177,462 |
| 1927 . . . | 51,009 | 87,121 | 138,130 |
| 1928 . . . | 53,601 | 83,568 | 137,169 |
| 1929 . . . | 43,587 | 94,667 | 138,254 |
| 1930 . . . | 109,927 | 109,047 | 218,974 |
| 1931 . . . | 145,126 | 122,866 | 267,993 |
| 1932 . . . | 89,245 | 151,577 | 240,822 |
| 1933 . . . | 29,910 | 251,750 | 279,661 |
| 1934 . . . First months | 16,759 | 206,161 | 222,921 |
| Total . . | £860,092 | £1,277,142 | £2,137,236 |
| 1933 . . . | | | 1,213,523 |
| 1934 (30th Sept.) . | | | 1,790,145 |

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